AN EMPIRICAL CASE STUDY OF STRATEGIC ALLIANCES IN MALAYSIA

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This thesis is presented for the degree of Doctor of Philosophy of Murdoch University

2006
I declare that this thesis is my own account of the research and contains as its main content work which has not previously been submitted for a degree at any university.

Ahmad Bashawir Abdul Ghani
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ABBREVIATIONS AND ACRONYMS

ADB    Asian Development Bank
AFTA   Asean Free Trade Area
APEC   Asia Pacific Economic Cooperation
ASEAN  Association of South East Asian Nations
BNM    Bank Negara Malaysia
EPU    Economic Planning Unit
FDI    Foreign Direct Investment
FIC    Foreign Investment Committee
GDP    Gross Domestic Product
GNI    Gross National Income
GNP    Gross National Product
IBRD   International Bank for Reconstruction and Development
IMF    International Monetary Fund
IMP    Industrial Master Plan
KLSE   Kuala Lumpur Stock Exchange
MATRADE Malaysian External Trade Development Corporation
MDC    Multimedia Development Corporation
MIDA   Malaysian Industrial Development Authority
MIER   Malaysian Institute of Economic Research
MIMOS  Malaysian Institute of Microelectronics Systems
MITI   Ministry of International Trade and Industry
MNC    Multinational Corporations
MOF    Ministry of Finance
MSC    Multimedia Super Corridor
NDP    National Development Policy
NEAC   National Economic Action Council
NEP    New Economic Policy
NIC    Newly Industrialized Countries
OECD   Organization for Economic Cooperation and Development
OPP1   First Outline Perspective Plan
OPP2   Second Outline Perspective Plan
PETRONAS Petroleum National
PROTON Perusahaan Otomobil Nasional Berhad
R & D  Research and Development
RM     Ringgit Malaysia
SC     Security Commission
SIRIM  Standards and Industrial Research Institute of Malaysia
SMI    Small and Medium Industries
SOE    State owned enterprises
UNCTAD United Nations Conference on Trade and Development
WB     World Bank
WTO    World Trade Organization
ABSTRACT

This study is premised on the assumption that cooperative partnerships or strategic alliances will become the dominant structure for business in future decades (Drucker, 1989). This is evident in the phenomenal growth in the establishment of alliances the world over despite high failure rates. The high failure rate notwithstanding, both domestic and international alliances are critically important to firm success (Glaister and Buckley, 1999). Currently, the top 500 global business firms average 60 major strategic alliances each (Dyer et al., 2001). Results also indicate that more than 80% of surveyed top level managers view strategic alliances as a primary growth vehicle and expect alliances to account for 25% of their company’s market value by 2005 (Schifrin, 2001).

The simultaneous developments that go under the name of globalization make alliances or entente necessary. Entente, the striking of an alliance, is a responsible part of every good strategist’s repertoire (Ohmae, 2001). In a world of imperfect options, they are often the fastest, least risky and most profitable way to go global; and properly managed alliances are among the best mechanisms that companies have found to bring strategy to bear on these challenges. Although the use of alliances reduces entry risks, managing these alliances entails difficulties. Moreover, this entry strategy has some peculiarities of its own, especially when there are significant cultural differences between the partners. Under these circumstances, partner selection and initial steps toward managing the new relationship become critical factors for successful entry. At the partnership creation stage, the balance between the contributions each company will bring to the partnership and the difficulties they will face in managing their relationship need to be considered. As the
relationship unfolds, social processes gain importance. The level of inter partner trust or “perceived likelihood of the other not behaving in a self interested manner” (Madhok, 1995, p.120) influences the performance of the partnership (Gill and Butler, 1996).

Whilst research in the West has attempted to focus on such failings, few researchers have attempted to understand the state of alliances in developing country contexts and alliance partner selection. Malaysia is a successful developing economy with a distinct institutional environment. This thesis explores (1) the criteria used by Malaysian firms to select their partner, both task related and partner related criteria; (2) the contributions that Malaysian firms and their foreign counterparts bring to the partnership; and (3) management of the inter partner relationship, including the difficulties encountered, how the relationship management varies with the characteristics of the Malaysian partner, and the resulting effects on the process of trust building. The study’s results suggest that Malaysia’s stable and supportive institutional environment has helped Malaysian firms take a longer term view of alliance partner selection, focusing more on the potential partner’s intangible assets along with technological and managerial capabilities rather than merely transaction cost concerns. The study also finds that Malaysian firms, when entering into strategic alliances, do not consider every option, that is, they use filters to reduce the potential choice. Thus the range of possible alliance partners is restricted in many ways, some of these being unconsciously employed. Furthermore, it is clear that, while Malaysian firms consider margins, ratios and percentages, relationships have a pre-eminent role in strategic alliances and that relationships are poised between ends and means to ends. It can therefore be surmised that the overall selection process in Malaysia
is fundamentally shaped by the manner in which potential alliance partners are initially identified. Case study evidence from a sample of Malaysian firms seems to bear this out. This study therefore contributes to knowledge about the influence of the institutional environment on alliance partner selection decisions for firms domiciled in developing countries.

The study utilized phenomenology as its research paradigm, along with the case study method. These methods were found to be highly relevant for conducting exploratory research into strategic alliances because of the need to generate holistic data and for such data to be interpreted within context. Finally, Malaysia’s economic performance to date has been impressive and the outlook for continued high growth rates is good. As Malaysia embarks on the next stage of development, the complementarities between the Malaysian firms and foreign economies will provide even greater opportunities for greater economic integration. The managerial implications for business managers are highlighted. Thus, the formation of strategic alliances to achieve or maintain a competitive advantage and enhance the firm’s performance is an important issue warranting further study (Arino, 2001).
CHAPTER 1       INTRODUCTION

1.1   Background to the thesis

The Malaysian government pursues a combined multilateral, regional and bilateral approach to trade policy. As part of this policy, Malaysia is open to concluding regional or bilateral agreements that deliver substantial gains to Malaysia and which cannot be achieved in a similar timeframe elsewhere. Malaysia is a member of regional economic arrangements, including the Asean Free Trade Area (AFTA) and the Asia Pacific Economic Cooperation (APEC). Malaysia sees economic agreements as complementing their main approach to pursuing trade liberalization which is through an equitable, rule based multilateral system. It pursues bilateral and regional arrangements in order to maximize every opportunity available to enhance its economic growth and complement its pursuit of market access via the World Trade Organization.

Malaysia’s specific objectives in concluding economic and cooperative agreements are to ensure its exporters are not disadvantaged through the proliferation of free trade agreements and other preferential trading agreements, to seek better access by addressing tariffs and non tariffs measures, to facilitate and promote trade, investment and industrial development and to build capacity in specific targeted areas through technical cooperation and collaboration. According to Deputy Prime Minister of Malaysia, Najib Tun Razak, the Malaysian government will not simply tear down the protective barriers and immediately throw the local industry to the ‘wolves’ of unbridled competition; support will continue to be given but it will be targeted, finite and transitional, not open ended and unconditional (Najib, 2006).
Economic Partnership Agreements currently being pursued by Malaysia with Japan, China, India, Australia, New Zealand and Middle Eastern countries are not confined to liberalization and market opening. They also include strategic alliances and cooperation in various areas including education, transport, science and technology, information and communication technology and agriculture. Concomitant with the spread of market liberalization, strategic alliances have become increasingly important for promoting international business. Malaysia’s economic liberalization has brought with it increased competitive pressure on domestic firms from newly entering competitors from abroad. Many of these formerly protected firms have been unable to face this challenge; others have engaged in strategic alliances to better position themselves in the newly opened economies. More recently, the Malaysian press has been inundated with news about the emergence of many more such alliances. In negotiating strategic alliances, Malaysia seeks arrangements that provide balanced and equivalent benefits among signatories; are consistent with World Trade Organization rules and allow sufficient flexibility to address specific concerns and sensitive areas (MITI, 2004).

Now that the mandate for Malaysian companies is becoming more complex, it is not surprising that they are reaching out to other organizations for help in the form of strategic alliances. Malaysian manufacturers must engage in joint economies of scale with the outside world through a process of specialization and interchange to open doors to bigger markets (Najib, 2006). So, while the mandate may still be to increase shareholder value, there may be a more attractive way to adapt to change, attract talent and diversity. That option may be to find the right partner to grow with because it has the
technological complement or market entry Malaysian companies need to succeed. Leading Malaysian companies are forming newer and more flexible forms of alliances with a wider array of potential partners, to increase revenues and shareholder value, adapt to technology driven change, increase market share in their areas of traditional strength, and diversify to take advantage of new market opportunities. Several prominent examples demonstrate that inter firm alliances can no longer be viewed as second best solutions but must be recognized as efficient forms of internationalization (Holtbrugge, 2004). With strategic alliances, Malaysian companies can grow the economic pie and increase their share of it through relationships that are deeper and much more strategic than traditional customer vendor arrangements. The partners bring solutions of equal value to the table, each contributing its knowledge, customer base and infrastructure (Doz and Hamel, 1998).

Perhaps the most startling development on the corporate landscape is that natural competitors realize it can be in their best interest to cooperate. In fact, alliances between competitors are no longer unusual. More than 20,000 alliances have been formed worldwide and they are growing at around twenty five per cent a year (Harbison & Pekar, 1999), causing them to be viewed as a ubiquitous phenomenon (Gulati, 1998). Research also indicates that forty eight per cent of all alliances are between competitors (Hickins, 2000). For Dunning (1997), the implications of international strategic cooperation go beyond the firm level. According to him, a transition of the entire economic system from market capitalism to “alliance capitalism” can be observed, wherein large multinational corporations are interconnected with small and medium sized firms in a dense network of
joint ventures, licensing agreements and other forms of equity and non-equity cooperation. Consequently, the definition of strategic alliances is not coherent in the wide body of literature that considers the issue of what really constitutes a strategic alliance. For the purpose of this research, however, strategic alliances are defined as a durable relationship established between two or more independent firms, involving the sharing or pooling of resources to create a mechanism (corporate or otherwise) for undertaking a business activity or activities of strategic importance to one or more of the partners for their mutual economic advantage (Hamilton et al. 1995; 1996). Not only are strategic alliances typically proactive, they are also selective. There is a choice of partners, usually involving some consideration of at least some of the possible candidates for the role of alliance partner. Despite this union of equals, the casualty rate is high (Hennart, Kim and Zeng, 1998). Half fall apart after three years, with the clash of objectives, wrong partner selection, managerial culture and differing levels of priority cited as the main problems.

Many executives still find alliances disconcerting - a sort of dangerous liaison of the business world (Harbison, 1999). Indeed, a strong and workable alliance is complex to negotiate and more difficult than an acquisition. What is driving these once unlikely unions is the reaction to a decade of re-engineering and restructuring. Managers realize that they cannot cost cut their way into growth and prosperity, because there is a limit to how much you can grow earnings by improving margins. The key to growth is in better overall performance. As such, alliances are now seen as one of the solutions for accessing those capabilities. Like all business processes, the better you manage it, the better the return. Unfortunately, until recently most companies were relatively inexperienced in
forming and managing alliances. There is however, a dearth of analysis on the causes of failure and, more importantly, on such crucial factors as how to successfully select alliance partners (Hitt, Tyler, Hardee & Park, 1995). This neglect is particularly acute in several developing countries, including Malaysia. This study therefore seeks to fill the research gap in the extant literature by developing a strategic alliance partner selection model for alliance managers and address the lack of research into strategic alliance partner selection in developing countries such as Malaysia.

This chapter will:

1. define the main research problem upon which this study is based
2. lay out a conceptual framework for studying strategic alliance management
3. justify the purpose of this research
4. justify the research methodology adopted in this study
5. outline the chapters of the thesis
6. define key constructs used in the thesis
7. identify the limitations of scope and key assumptions

1.2 The main research problem

An early identification of the main research problem is essential as it focuses research activity and literature searches (Zuber-Skerritt and Knight 1986, Punch 1998). Further, asking the familiar questions of ‘who’, ‘what’, ‘when’, ‘how’, and ‘why’ leads the researcher to derive a research problem with appropriate parameters (Yin 1989:17, Punch 1998). This approach has helped to identify the main research problems addressed in this study: What are the criteria used by Malaysian companies with differing institutional frameworks to select their partner; the contribution both parties bring to the partnership; the management of the inter partner relationship including the difficulties encountered;
how the relationship management varies with the characteristics of the Malaysian partner; and the resulting effects on the process of trust building. The assumption is that strategic partnering is pursued by many Malaysian companies because they expect a positive economic result through such formation. Variation from developed markets is likely to occur as a function of differences in norms, resources and infrastructures. Hence, important differences are expected in the partner preferences of firms from each of these Malaysian companies. A glance at the literature invariably reveals that a major cause of strategic alliance failure is related to partner selection (Hitt, Tyler, Hardee & Park, 1995) and alliance management (Niderkofler 1991). Moreover, the partnership is subject to rules and regulations of regional and global agreements and institutions to which host and home countries of the partners and their venture subscribe.

A number of key questions have been derived from the literature review (Chapter three), the answers to which lead directly to solving the research problem:

1. What key characteristics did Malaysian companies search for in a partner candidate?
2. What initial conditions were critical for the future success of the partnership and what were the main differences between the two organizational cultures?
3. What did each partner bring to the partnership to add value?
4. What initial obstacles in the partnership were most difficult to overcome?
5. Were the legal contracts effective to protect the interest of Malaysian firms?
6. What kind of things did companies identify in their partner that made them trust it and what kind of actions or initiatives did the companies take to accelerate the process of trust building?
7. How important were the interpersonal relationships and how did the relationships change as time went on?
The purpose of this research is to examine strategic alliance partner selection preferences in one emerging economy and to develop a systematic understanding of the factors that influence the behavior of participants at the alliance level which affect alliance performance. A holistic strategic alliance partner selection model will facilitate successful leveraging of the above factors to ensure alliance goal attainment.

1.3 Conceptual framework

A conceptual framework is employed to disentangle the research problem. The framework was developed for the thesis based on theoretical insights drawn from the extant literature on strategic alliances. The framework enables us to evaluate how the variables noted in Chapter three (literature review) affect the role of strategic alliance managers. This evaluation results in the preliminary conceptualization of strategic alliance partner selection model presented in Chapter three. The model’s tenets will be field tested using the case study method with the findings presented in Chapter five. Insights gained will benefit alliance managers and contribute to the current corpus of knowledge in strategic alliances.

Figure 1.1 Conceptual framework of strategic alliance partner selection model
1.4 Justification for undertaking the research

This study can be justified on a number of grounds: (a) the formation of partnerships between firms is an increasingly common way for firms to find and maintain competitive advantage; (b) high alliance failure rates; (c) the lack of research on alliance strategy in developing countries; (d) the use these results may be put to; and (e) the addition to the corpus of knowledge on strategic alliance.

First, there is a need to further the research on the trend towards strategic alliances so that more can be learnt about the broader paradigm shift in corporate strategy of the 1990s. Although the trend was first noticed as early as the 1970s and 1980s (Drucker 1969, Porter 1980, Toffler 1981), its relevance in the 21st century cannot be understated. The formation of strategic alliances is motivated primarily to gain competitive advantage in the marketplace (Porter, 1980, Powell, 1990, Bleeke and Ernst, 1991). However, prescriptions for the formation of such partnerships often overlook the drawbacks or hazards of such relationships. For example, increasing complexity, loss of autonomy and information asymmetry (Provan, 1984; Williamson, 1975) may accompany partnering relationships. Although the number of attempted partnerships has grown almost geometrically in recent years, the rates of success are rather low (Harrigan, 1988; Kanter, 1988). In fact, while the formation of partnering relationships is often viewed as a panacea for an individual firm’s competitive woes, the prescription to form an alliance to gain competitive advantage overlooks the fact that many strategic partnerships do not succeed. Unfortunately, the academic literature has been slow to embrace this important managerial concern (Day and Klein, 1987) and little guidance has emerged on how to
better ensure partnership success. Research on strategic alliances has posited theories addressing the reasons why firms enter into closer business relationships. For example, transactions costs analysis (Williamson, 1975, 1985), competitive strategy (Porter, 1980), resource dependence (Pfeffer and Salancik, 1978; Thompson, 1967), political economy (Benson, 1975; Stern and Reve, 1980), social exchange theory (Anderson and Narus, 1984) each make predictions about when partnerships will be formed. Implicit in this research is the assumption that when used under the appropriate circumstances and environmental conditions, partnerships will be successful. Yet, as mentioned earlier, a large percentage of these strategic partnerships do not succeed. Given this inconsistency, one must question what factors are associated with partnership success. Knowledge of factors that are associated with partnership success could aid in the selection of partners as well as in the ongoing management of the partnership.

Secondly, much prior work on alliance partner selection examined the selection decisions made by foreign entrants, commonly from developed nations (Geringer, 1988). With the exception of Shenkar and Li (1999), little work has been done on how firms domiciled in emerging economies approach alliance partner selection. Hitt, Dacin, Levitas, Arregle and Borza (2000) employed a resource-based framework to examine different alliance partner selection decisions made by firms in developed and emerging markets. However, Hoskisson, Eden, Lau and Wright (2000) argued that research should be extended to increase the understanding of institutional forces present in developing economies. Institutions are defined as shared, collective understandings of rules of conduct reflected in laws, rules, governance mechanisms and capital markets (North, 1990; Scott, 2001),
which help to define observed patterns of market exchange (Fligstein, 1996). Institutional arrangements can produce entry barriers or create opportunities for action. As a result, variation in strategic actions across contexts may be a function of differences in the existence, saliency and intensity of particular institutional arrangements. For example, Kogut, Walker and Anand (2002) found that inter industry firm diversification patterns varied across countries because of differences in institutional arrangements. Park and Ungson (1997) argued that the values and norms embedded in the institutions could also affect the development and management of strategic alliances. Bianci (2002) showed that a firm’s success with an international strategy was a function of its conformity to institutional norms most salient in the local country contexts. Thus, institutional arrangements influence the evolution of national economies, organizational forms and managerial actions.

In this response, this research will extend the work of Hitt et al (2000) by comparing the characteristics of international strategic alliance partners preferred by managers in firms based in Malaysia. Further, in the context of Malaysia, the study is significant because it will benefit the expansion of the Malaysian economy as well as the country’s current strategic intent of an export driven economic growth strategy. Hence, more empirical studies on Malaysian firms are required to provide more data on the applicability of extant theories on the formation of strategic alliances from developing countries. Hoesel (1999:35) stated that what is seriously lacking at present are new empirical findings that will enable us to make theoretical statements and hypotheses more concrete.
Third, partner selection does not occur in a vacuum. Much firm behavior is nested or embedded in a broader political, economic and social context that shapes action (Dacin, Ventresca & Beal, 1999). Emerging markets have become a critically important global phenomenon and there is need for more research on them. In particular, there has been little research on strategic alliances with partners in emerging markets (Lee & Beamish, 1995). Beamish (1994) argued that joint ventures, the most common form of strategic alliances, were the dominant strategy used in emerging markets by multinational firms. Emerging markets provide a particularly rich setting to examine the firm characteristics used in partner selection. The economic and sometimes social instability in emerging markets produces ambiguity and uncertainty regarding the rules of exchange; in this context, the rules are still evolving (North, 1990; Pederson & Thomsen, 1997). In emerging markets, the strategic alliance is a relatively new form of organizing (Lewin, Long & Carroll, 1998). Also, important differences in the underlying institutional infrastructures of emerging markets affect managers’ strategic orientations (Garten, 1996). Patrick and Luthans (1995) suggested that even countries that are geographically proximal could be economically, politically and culturally distant in significant ways.

Child and Faulkner stated that when one of the partners comes from an emerging country and the other from a highly developed economy, their configuration of objectives would almost certainly differ from that in the case of partners from two developed countries (1998:297). This is especially important in an international setting where differences in culture, infrastructure, economic development and government policies increase the complexity of the context in which the alliance is embedded (Slocum & Lei, 1993).
Enterprise strategies in emerging economies are therefore facing strong environmental pressures for change, yet this change is neither smooth nor automatic nor uniform across different markets. Thus, it is imperative to consider the different contexts in which strategic alliance partner selection decisions are embedded.

Fourth, in comparing and contrasting alliance partner selection from another globally important region, this study makes three contributions. First, this research will contrast the institutional environments in Malaysia and postulate how its differences affect the types of alliance partners preferred by local firms in this country. Second, this research adds to the understanding of strategic alliances in the international business literature by examining the preferences of firms indigenous to developing economies as opposed to those of foreign entrants. Third, this research represents one of the few case studies to examine one developing economy on important strategic actions. Thus, this case study adds to knowledge of international strategic alliance partner selection decisions by extending the resource based framework used by Hitt et al (2000) to highlight the effects of institutional arrangements on alliance partner selection. The findings suggest that the types of partners and the resources desired vary according to the environment in which the firms must operate. The results may also provide support for other more specific effects of the institutional environment such as regulatory regimes (Scott, 2001). They are also lessons for managers and policy makers who are constantly seeking to promote or enhance alliance management. The findings of the research will also be of theoretical value to the corpus of knowledge in strategic alliance which is the immediate discipline
of the research problem. They also contribute to indigenous research (Tsui & Lau 2002) by studying firms based in emerging economies.

Fifth, although the characteristics and structure of the Malaysian economy may not be homogeneous, it shares several characteristics with many developing economies. As indicated by Snodgrass (1980, p.5), “Malaysia is a good case to study because it has much in common with a significant group of developing economies yet in some important respects is a polar case, in which widespread problems and possibilities appear with particular vividness and urgency”. Malaysia is also a nation in which the state has played an active part in its economic development, particularly in the stabilization of initial conditions (political and social) and random shocks (especially terms of trade) during the initial stages of development. Despite the fact that the Malaysian economy is based on a “free market system”, the state has dominated the economy through its interventionist approach since independence in 1957. Policies were implemented by the government over a wide range of activities, from distributing the nation’s wealth to industrial development. This is unlike the western context where the role of the state is benign and indirect. Thus, by using Malaysia as a case study, an alternative perspective is provided for understanding the significance of the role of the state in achieving more rapid economic development. This will also provide data for more extensive subsequent research and testing of propositions and hypotheses as part of an ongoing research on Malaysian firms.
Finally, Malaysia’s former Prime Minister (1981 to 2003), Dr Mahathir Mohamad is well known for his campaign for the preservation of ‘Asian Values’ and they have permeated the relations between state and market in Malaysia. The initial approach of both Western and Asian companies doing business in Asian countries was to adopt the ‘colonialist model’ (Davies, 1996). Asian companies adopted Western models uncritically and Western companies transplanted their own business and management cultures into their Asian subsidiaries, joint ventures or regional offices. Very little attention was given to differences in organizational and management cultures, working practices and social cultures (Davies, 1996). However, evidence suggests that Western management practices do not always adequately translate over to organizations operating outside of Anglo-spheres of influence (Hofstede, 1980, 1997; Newman and Nollen, 1996), resulting in many management disasters among the first joint ventures and market forays to the East (Davies, 1996). To the extent that a considerable proportion of the discourse of strategic alliance is characterized by developed country and universalistic, ‘one size fits all policy approach’, a different approach is called for. Thus, this study of international strategic alliances also casts light on the path of economic change in a non western society.

1.5 Methodology

This thesis adopts the case study approach, as propounded by Yin (1989, 1994), to explore the variables that lead to the formation of strategic alliances in Malaysia. An early appreciation of the determining variables was derived from the extant literature on international strategic alliances reviewed in Chapter three. A strategic alliance in effect involves strategic partners in coevolving relationships with a web of internal and external
ties of networks. The role of the alliance manager (someone representing the company, General Managers or Directors) is necessarily about relationship management. Thus, the unit of analysis, the alliance manager, has to constantly contend with dynamic rather than mere dyadic, or company level relationships (De Burca and McLoughlin 1998). Research on Malaysia has not focused on partner selection and the management of the first steps in the relationship. Thus, given the state of knowledge in this area, theory building goals, research design and data collection methods were selected accordingly in an exploratory manner. The methodology used was qualitative analysis of data collected mainly from semi structured interviews. Analysis was done using the tools and techniques for qualitative data analysis suggested by Miles and Huberman (1994). The procedures these authors suggest involve the use of descriptive and analytical matrices designed ad hoc by the researchers to facilitate data reduction, data display, conclusion drawing and verification.

There is general consensus amongst researchers that the case study approach entailing interviews is the most appropriate methodology that can fully capture the strategic value and dynamic nature of networks that involve human interactions over time and space and as a corporate strategy (Stainback 1988, Hamel and Doz 1991, Niederkofler 1991, Stiles 1995, Easton 1998, Prahalad 2004, Ghoshal 2005). Moreover, it has the advantage of employing an embedded design, that is, multiple levels of analysis within a single study (Yin 1994) such as at the industry and company level.
In a nutshell, the case study method has the potential to capture a complex phenomenon such as relationships at multiple levels. In particular, Smith, Carroll and Ashford (1995) call for “more case studies that are capable of capturing the complexities and dynamics of cooperation.” In his critical appraisal of international joint venture research (IJV), Parkhe (1993) argued that certain core questions at the heart of the IJV relationship have been overlooked by studies which are methodologically impeccable but theoretically weak. In particular, he reasoned that prevailing norms emphasizing sophisticated analyses of data drawn from mail surveys and secondary sources are fundamentally ill suited for dealing with the inherent “messiness” of cross border cooperative alliances. Such studies boast large sample sizes but offer little in-depth analysis into important partner selection issues. Parkhe proposed instead a research program geared towards a deeper understanding of the mechanisms of inter firm cooperation and motivated by goals of theory development. He further added that the “maximally efficient procedure” for advancing IJV theory begins with the iterative dialogue of ideas and evidence that is characteristic of the multiple case study research method.

In the same vein, Steven White (2002) in his assessment of the state of management research in Asian contexts drawn from 840 articles, asserted that too much of the research effort has been limited to simplistic comparisons, correlational analyses providing no insight into underlying processes and skewed, idiosyncratic sampling. The result has been a lack of theory development and contribution to conceptual discourse beyond an audience specifically interested in Asia, with little relevance for management practice.
Given the exploratory nature of this thesis, the methodological approach here follows that taken by Parkhe (1993) and Steven White (2002).

The thesis has two basic key assumptions. One is that a major cause of alliance failures is partner selection and therefore relates to the task performed by alliance managers. The second assumption is that the current phenomenal growth in the number of strategic alliances the world over will continue into the 21st century, as the trend towards globalization is here to stay (Ohmae, 2001). With increased globalization, many firms feel that an effective way to serve overseas markets and remain competitive edge is through establishing alliances with overseas partners.

1.6 Thesis outline

The thesis is divided into six chapters. Chapter one provides a brief outline of the nature of the thesis, a justification for a case study approach and the choice of Malaysia as the case study. Chapter two outlines the basic Malaysian economic framework and specifically looks at the structural transformations that have taken place in the overall economy over the last three decades. Emphasis on capital intensive and information technology industries in support of the establishment of the Multimedia Super Corridor (MSC) and the realization of Vision 2020 indicates the preparation for an international economic environment and the changing comparative advantage. A key component of the success of the Malaysian economy has been the management and adequate policy response to the various economic crises. These policies and strategies have been instrumental in the dramatic economic growth of the last thirty years. Chapter three sets
out to derive a definition of strategic alliance, lays out a classification of theories to
analyzing strategic alliance, reviews strategic alliance literature against the theoretical
approaches and derives an initial conceptualization of a holistic strategic alliance partner
selection model. The main contribution of Chapter three is its derivation of seven
research questions that guided the actual research. Chapter three forms an important part
of the thesis because it is through the process of critical evaluation of adding
incrementally to a body of knowledge that progress is made (Naude and Turnbull 1998).
The literature may be used in sharpening the focus of the study and to give structure to its
questions and designs. In all cases the researcher needs to connect the proposed study to
the literature (Punch, 1998).

Following on from the research questions derived in Chapter three, Chapter four justifies
the research paradigm and method used in this thesis and lays out the research procedures
that guided the actual research. The research paradigm used in this thesis is
phenomenology, one that fits well with the case study method because of the exploratory
nature of the research. Chapter five undertakes a cross case analysis of the rich individual
data found in the case summaries with a view to deriving common themes. These themes
are in turn, linked to the theoretical findings of strategic alliance and their experiences in
developed and developing countries. The cross case analysis fulfills the requirements of
data and theoretical triangulation, being important requirements of the case study
approach. Chapter six draws on the accumulated evidence presented in Chapters two,
four and five to derive answers to the seven research questions. It also presents
implications for policy and practice and contributes to strategic alliance partner selection
a holistic conceptual model, modified from that presented in Chapter three. Finally, the study’s limitations are discussed and potential areas for future research identified.

1.7 Limitations of scope and key assumptions.

At the outset, the main research problem investigated in this thesis automatically limits it to exploring the management environment within which a strategic alliance manager, the primary unit of analysis of this study has to operate. Further, the main research problem focuses on the alliance institutional and external environment contexts in Malaysian firms. Thus, the focus of the research centres on strategic alliances formation and on seeking to understand the emergent problems and issues rather than on managing strategic alliance or termination strategies. These issues have been well documented in the literature. Because the thesis uses the case study approach, the generalizations of findings are theoretical rather than statistical (Glaser and Strauss 1967). Theories can be compelling and useful despite being primarily explanatory (De Rond, 2002). Yin (1994:10) explains this succinctly by noting that case studies, like experiments, are generalisable to theoretical propositions and not to populations or universes.

In this sense, the case study, like the experiment, does not represent a sample, and the investigator’s goal is to expand and generalize theories (analytical/theoretical generalization) and not to enumerate frequencies (statistical generalization). Generalisation should not necessarily be the objective of all research projects, whether case studies or not (Denzin, 1983; De Rond, 2002). Generalizations are highly superficial at best and grossly inadequate at worst (Bertagnogli, 2001). While on this lack of
generalizability criticism of case study research, which is often a ‘knee jerk’ reaction to the case study, we should note the central role given to the case method of teaching in professional schools of business, medicine and law, as well as nursing, public administration, social work and psychoanalysis (Reinharz, 1992). In these training situations, historical cases are studied in great detail, and are used to train managers, doctors, lawyers and so on, to deal with situations they will encounter in the future. This clearly underlines the potential generalisability of knowledge built from case studies. If every case were totally unique, there would be no transferability of knowledge from one case to another and little point in the case method of training (Punch, 1998). Following this line of argument, it may be that too much research has tried to go straight to measurement and quantitative mapping, without the fuller understanding of the phenomena and processes involved that is best achieved by case studies (Punch, 1998). In case studies, random selection is neither necessary nor even preferable (Eisenhardt 1989:537). Case studies use theoretical sampling which may involve the selection of cases such as extreme situations and polar types (Pettigrew 1988, cited in Eisenhardt 1989).

1.8 Conclusion

This chapter has laid the foundation for this thesis. It showed major gaps specifically in the area of strategic alliance partner selection despite the hitherto voluminous literature on alliances and networking. Following this, the main research problem and research questions were introduced. A conceptual framework of the thesis was outlined and the case study methodology was presented, based mainly on the dynamic nature of alliance
management involving human interactions over time where reality changes with changes in people’s perception, where reality is what people perceive it to be and where values will impact on the understanding of the phenomena. The thesis was then outlined with brief descriptions of each chapter, key constructs defined and finally an overview of the limitations. On these foundations, the thesis is set to proceed with a detailed description of the research.
2.0 Introduction

In the early 1980s, the term newly industrializing countries was applied to a few fast growing and liberalizing Asian and Latin American countries. Because of the widespread adoption of market based policies by most developing countries, the term ‘newly industrializing countries’ has now been replaced by the broader term ‘emerging market economies’. An emerging economy can be defined as a country that satisfies two criteria: a rapid pace of economic development and government policies favouring economic liberalization and the adoption of a free market system (Arnold & Quelch, 1998). In 1999, The International Finance Corporation (IFC, 1999) identified 51 rapid growth developing countries in Asia, Latin America, Africa and the Middle East as emerging economies, including Malaysia. In addition to these fast followers, following the classification of the European Bank for Reconstruction and Development (ERBD, 1998) 13 transition economies were added to the list, including China and Russia. The pace of political change and the size of economic gains have not been uniform across the 64 emerging market economies. The rapid and widespread adoption of market based policies by emerging economy governments raises important issues for the strategies adopted by private enterprises, both domestic and foreign. In fact, the 21st century has been referred to as the century of Pacific Asia (Tung, 1994).

In spite of this evidence, the literature of international business regarding developing markets tends to be very limited, although lately a few countries and regions such as China and Mexico have been attracting the attention of academic researchers (Yadong,
What is even more striking is that, according to Govindarajan and Gupta (2000), in the next 20 years the economic centre of gravity of the world will shift toward these countries. During this period of time these Big Emerging Markets (BEMs) are expected to be the homes of a number of large players in the world’s 500 largest companies. These changes in the international economic environment are expected to accelerate in the coming years due to the fast growth of BEMs relative to developed countries, as well as the strategies of multinational firms benefiting from economies of scale and locational advantages.

At the same time as domestic policies are becoming more market oriented, emerging economy governments are opening their countries to foreign markets and joining regional trading associations such as AFTA (Asean Free Trade Area). New relationships between foreign and domestic enterprises are emerging as strategic alliances replacing export processing zones and subcontracting arrangements. Alliances with Malaysian firms can be seen a gateway into other Asian markets allowing foreign firms to leverage their existing alliances into avenues for future collaboration. Given these factors, Malaysian firms are likely candidates for cross border alliances. Malaysian firms seeking to find new markets for their products will search for partnerships in the western hemisphere and Europe and firms from these regions will seek ways to tap into Malaysia’s growing economy. Enterprise strategies in emerging economies are therefore facing strong environmental pressures for change, yet this change is neither smooth nor automatic nor uniform across different markets.
Malaysia is an Asian country that has emerged as a major participant in the world economy during the last two decades. As a result, competition between Malaysian and foreign firms in global markets is increasing. Malaysia is a country that relies heavily on exports for economic expansion. Its economic expansion is related to its evolution from an agricultural based country in the early 1960s to an industrialized one in the 1980s and is vigorously supported by government policies through its interventionist approach since independence from Britain in 1957 (Economic Analytical Unit, 2005).

Policies were implemented by the government over a wide range of activities from distributing the nation’s wealth to industrial development. Government support in the form of national and industrial policies can motivate certain forms of industrial development. Except for a few dogmatic conservative market economists, there is now widespread acknowledgement of the crucial, pro-active role of the state in East Asian late industrialization. It is increasingly clear that there has been considerable variation in the role, nature and extent of government intervention, and that these have changed over time (Jomo; Deyo, 1987). The focus of macroeconomic management through the 2001 to 2005 planning period was on low and stable inflation, an adequate level of national savings, a balance of payments surplus, a stable exchange rate, debt sustainability, fiscal prudence and strong and unencumbered external reserves (Economic Planning Unit, 2003).

From 1980 to 1995, Malaysia, Singapore and Thailand more than doubled their real income per person while the US’s increased by only 20 per cent (Sarel, 1997). This led Rowan (1998, p.1) to comment that their record of development is exceptional, not only
in comparison to other developing regions but in world history. Although the 1997 financial crisis may to some extent have discredited the Asian miracle, the East Asian countries’ leap from poverty and economic and technological backwardness over a period of less than 40 years has been something of a “miracle” (World Bank, 1993; Stiglitz, 1996, 1998; Sachs, 1997; Nelson and Pack, 1999; Booth, 1999). The facts on the high growth performance of the Newly Industrialized Countries (NICs), including Malaysia, are not in dispute. They are acknowledged by proponents and critics alike. What is in dispute is the interpretation of these facts and their significance for development theory and policy.

The main objectives of this chapter are: (1) to highlight economic growth in Malaysia paying particular attention to productivity growth; (2) to analyze the main factors and policies that are responsible for growth as well as several issues that are considered restrictive on business activities in Malaysia; (3) to explain the changing phases of the Malaysian economy and the various achievements and conundrums since independence. Emphasis is given on the historical account of the changing economic environment, comparative advantage and the shift from an agriculture based economy to a manufacture based economy. More importantly, the economic framework and industrialization strategies that have guided the Malaysian economy into success are clearly outlined. An account of the management of the various economic cycles, crises that have hit the economy and the impact of these crises on the economy are also dealt with. To give a more comprehensive understanding of the Malaysian economy, discussions on issues of manpower, privatization, financial, multimedia development and Vision 2020 are also
included. The thrust of the argument centre around the assumption that an economy is a complex dynamic system and there are strong interactions among selected variables.

2.1 An Overview of Malaysia’s Economic Performance

Figure 2.1


Malaysia is currently experiencing a transitional process towards the production structure of the developed economies. This transitional process has led to rapid output growth after political independence in 1957. Prior to establishing the New Economic Policy in 1970, Malaysia was predominantly a commodity based economy, relying on rubber and tin. There was also a program of import substitution, manufacturing consumer goods for the domestic market. The New Economy policy saw a policy switch by the Malaysian government, pursuing a two pronged policy approach of export promotion and import substitution. By the mid 1970s, electronics, electrical products, textiles, clothing and food manufacturers were all making export gains (Ariff, 1991). They increased from 11
percent of total exports in 1970 to 60 percent in 1990. In part, the New Economic Policy provided a blueprint for an active policy to raise Malay participation in business (details to be discussed later on). The Malaysian Government was aided in its development plans by an increase in oil revenue; between 1973 and 1977, total government revenue more than doubled, and the share of oil in the revenue take increased from 1.5 per cent to 11.4 per cent. Within 10 years, per capita income had more than quadrupled, albeit from a low base (Figure 2.1). Concomitantly, the Malaysian middle class has grown both in size and affluence. Thus, by the 1990s Malaysia was approaching the status of a newly industrializing economy (Islam and Chowdhury, 2000). Figure 2.1 indicates how far Malaysia has come since 1970 but more importantly, how far it still has to go. Economic growth over the past three decades has been substantial enough to ensure per capita income is larger than Indonesia, the Philippines and Thailand (World Bank 2003). However, per capita income remains much lower than Singapore, illustrating the scope of the task ahead for Malaysia to achieve its development goals.

In the early stages, Malaysia’s GDP grew at an average rate of 5.1% in the 1960s and 7.8% in the 1970s making it one of the fastest growing economies in Asia. In the 1980s, the Malaysian economy continued to grow, albeit at a lower average rate of 5.9% due to the global recession in 1985-1986. With the recovery of the world economy, the Malaysian economy grew rapidly from 1991-1995 at an average rate of 8.7% per annum. The growth momentum over the next five years from 1996-2000 was disrupted by the severe contraction in 1998 arising from the East Asian financial crisis. Malaysia’s GDP had expanded at an average rate of 8.7% per annum during the period from 1996-1997
before registering a negative growth rate of 7.4% in 1998. Efforts by the government to resuscitate the economy starting from mid-1998 succeeded in generating an average growth rate of 7.2% during the period from 1999-2000. Since then, output has recovered, with the exception of 2001 where the international dotcom contraction adversely affected growth. Overall, the economy grew better than expected at an average of 4.7 per cent per annum during the period (Figure 2.2).

**Figure 2.2 GDP growth in Malaysia**

![GDP growth in Malaysia](image)

Source: Ministry of Finance 2005

From 2002 to 2004, the Malaysian economy recorded a creditable performance despite the unprecedented volatility in the global economy as well as uncertainties arising from international terrorism, wars in Afghanistan and Iraq, and the outbreak of the Severe Acute Respiratory Syndrome. Through fiscal stimulus and accommodative monetary
policies, the government was able to sustain growth due to the expansion in domestic demand and promotion of domestic sources of growth. From a GDP growth rate of only 0.4% in 2001, the Malaysian economy recovered strongly to register growth rates of 4.2% and 5.2% in 2002 and 2003 respectively.

2.2 Malaysia’s Economic Strength and Overall Competitiveness

The mid-1997 economic and financial crisis which hit many countries in the Asia Pacific Region and caused a currency crisis and stock market crash in Malaysia, provided further proof of the strength and resilience of the Malaysian economy. Within less than two years, helped by selective exchange controls and the pegging of the ringgit, Malaysia bounced back towards economic recovery. Malaysia is competitive relative to other economies in the region, has a skilled work force and has a well developed infrastructure and banking system. Some barriers remain, including positive discrimination for bumiputeras, copyright protection and transparency in the privatization process. All these will be discussed at length later in this chapter. The World Economic Forum Business Competitiveness Index ranked Malaysia 23 out of 103 economies in 2004 (Table 2.1). Areas of particular strength included overall infrastructure quality and low regulatory burdens. Malaysian ports, for example, are the eighth busiest in the world measured by twenty foot equivalent unit container traffic behind China (including Hong Kong), the United States, Singapore, Japan, Korea, Germany and Italy (World Bank, 2004). Of the Eighth Malaysia Plan allocation for infrastructure development, transport was a priority with USD1.34 billion to be used for the development of new roads to increase accessibility to rural areas. An additional USD2.34 billion was budgeted to upgrade
existing roads (Economic Planning Unit, 2001). Total expenditure on roads was increased in the Mid-term Review of the Eighth Malaysia Plan to USD4.89 billion (Economic Planning Unit, 2003). Overall telecommunications access also is better than in other South East Asian nations but still lags Singapore, Korea and Taiwan (Economic Analytical Unit, 2002). The Government has identified several key areas to develop further the information and communications technology (ICT) sector throughout 2001 to 2005 and the Mid term Review of the Eighth Malaysia Plan allocated around USD2.02 billion to the ICT sector, of which USD0.39 billion was allocated to Multimedia Super Corridor (MSC) flagship applications (Economic Planning Unit, 2003).

Table 2.1
Business and Growth Competitiveness Index rank, selected countries, 2004

<table>
<thead>
<tr>
<th>Country</th>
<th>Business competitiveness index Rank out of 103</th>
<th>Growth competitiveness index Rank out of 104</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>10</td>
<td>7</td>
</tr>
<tr>
<td>Australia</td>
<td>13</td>
<td>14</td>
</tr>
<tr>
<td>Malaysia</td>
<td>23</td>
<td>31</td>
</tr>
<tr>
<td>India</td>
<td>30</td>
<td>55</td>
</tr>
<tr>
<td>Thailand</td>
<td>37</td>
<td>34</td>
</tr>
<tr>
<td>Indonesia</td>
<td>44</td>
<td>69</td>
</tr>
<tr>
<td>China</td>
<td>47</td>
<td>46</td>
</tr>
<tr>
<td>Philippines</td>
<td>70</td>
<td>76</td>
</tr>
<tr>
<td>Vietnam</td>
<td>79</td>
<td>77</td>
</tr>
</tbody>
</table>

Note: The growth competitiveness index measures the capacity of the national economy to achieve sustained economic growth over the medium term, controlling for the current level of development.
Source: World Economic Forum, 2004

2.2.1 Continuous Economic Growth

The Malaysian economy has performed remarkably well over the years due to the country’s political stability, the sound financial and economic policies adopted by the government, and the efficient management of its natural resources which include oil and gas. Even more impressive is the fact that economic growth in Malaysia was achieved within an environment of relatively low inflation. Malaysian inflation since the 1970s
compares favorably to other economies in the region (Figure 2.3). Inflation is well under control in Malaysia, having been below two per cent in each of the last four years to 2003 (Bank Negara Malaysia, 2004). Prudent macro economic policies, low imported inflation, stability of the exchange rate peg and excess capacity in some sectors of the economy helped achieve low and stable inflation (International Monetary Fund, 2004).

Figure 2.3: Inflation rate, Malaysia, Singapore, ASEAN3, per cent, 1970 to 2002

Note: ASEAN3 includes Indonesia, the Philippines and Thailand
Source: World Bank 2003

2.2.2 High Level of Global Integration

During the last decade, Malaysia’s trade expanded by 2.3 times to reach USD188.57 billion, with exports increasing by 2.6 times to USD104.97 billion and imports doubling to USD83.6 billion. Currently, Malaysia is the world’s 18th leading exporter and 20th leading importer. The relatively small size of the Malaysian economy, which has a population of 24 million and GDP per capita of US$3880, means exports played a crucial role in sustaining rapid economic growth (Figure 2.4). In 2002, Malaysia was the fourth most open economy in the world, as measured by the export share of GDP, behind
Singapore, Hong Kong and Luxembourg, arising from a strong focus on products that service the export market as well as large import content in export production (International Monetary Fund, 2003). The World Bank considers Malaysia a “moderately” indebted nation and debt as a share of exports of goods and services is considerably lower than that for upper middle income economies as a whole at 45 per cent compared to 100 per cent (World Bank, 2004). Net foreign reserves are increasing, covering nearly seven months of imports (Economic Planning Unit, 2004).

**Figure 2.4: Exports of goods and services as a share of GDP, Malaysia, ASEAN3, per cent, 1970 to 2003**

![Graph showing exports as a share of GDP](image)

Note: ASEAN3 includes Indonesia, the Philippines and Thailand
Source: CEIC, 2004

The manufacturing sector now accounts for 30.8% of Malaysia’s GDP (Figure 2.5) while exports of manufactured goods make up 82% of the country’s total exports. From being the world’s largest producer of rubber and tin, Malaysia is today one of the world’s leading exporters of semiconductor devices, computer hard disks, audio and video products and air-conditioners. Within manufacturing, the Malaysian economy is moving
towards high technology and knowledge intensive manufacturing. Since 1987, the electronics sector has grown more than eightfold in real terms, increasing its share of manufacturing output from 14 per cent in 1987 to 27 per cent in 2003. The service sector in Malaysia, as a share of GDP, has remained relatively flat over the past 30 years, at around 40 to 45 per cent of GDP (Figure 2.5). The largest sub sector is wholesale and retail trade, restaurants and hotels. Retail and tourism industries were particularly vulnerable to the 2002 Severe Acute Respiratory Syndrome (SARS) outbreak but are starting to recover from this setback (Asian Development Bank, 2004).

Figure 2.5: Malaysian industry output as a share of GDP, per cent, 1970 to 2003

Source: CEIC 2004; UNCTAD 2003

Malaysia’s rapid industrialization was the result of the country opening itself relatively early in the 1960s to foreign direct investment (FDI). Today, its market-oriented economy, combined with an educated multilingual workforce and a well-developed infrastructure, has made Malaysia one of the largest recipients of FDI among developing countries. Foreign direct investment inflows averaged over six per cent over the last two
decades. The Institute for Management Development (IMD) in its 2004 World Competitiveness Yearbook ranked Malaysia as the fifth most competitive country in the world (for countries with a population of greater than 20 million), ahead of countries such as Germany, United Kingdom, Japan and Mainland China. The conditions for attracting foreign investment to Malaysia are good. Malaysia ranked seventh in the world in terms of top foreign direct investment locations for investment being considered in 2004-2005 (UNCTAD, 2004). To quote the former president of the American-Malaysian Chamber of Commerce, Nicholas Zefferys: "This was not an economic miracle. It required hard work and was built up, brick by brick. It required a visionary and determined leadership and the support and will of the people" (MIDA 2005).

Despite intense international competition for foreign direct investments (FDI), Malaysia managed to attract USD8.18 billion in investments in 2004 (MIDA 2005). This is a strong indication that Malaysia continues to be an attractive destination for new investors. Most of the investments were in manufacturing, and information and communication technology services. In the manufacturing sector, 603 new projects with investments totalling USD4.89 billion were approved (MIDA, 2005). Existing companies have continued to expand and diversify their operations in Malaysia and this is reflected in the higher level of reinvestments in 2004 compared to 2003. Foreign investment commitments in new projects amounted to USD2.39 billion in 516 projects, compared with USD2.94 billion in 514 projects in 2003. USD4.1 billion or 54% of the total investment approved in 2004 was secured from domestic sources. The level of domestic investment commitments in 2004 was the highest since 1997, reflecting the increasing
confidence of the Malaysian private sector. During the nine years from 1996 to 2004, approved investments amounted to USD62.76 billion, averaging USD6.97 billion annually (MIDA, 2005). Foreign direct investment played a large part in Malaysia’s development and averaged over six per cent of GDP during the 1990s. The rapid development of the electronics sector ensured strong inflows of foreign direct investment in the decade before the Asian economic crisis, enhancing Malaysia’s industrialisation process. At its peak in 1992, foreign direct investment accounted for 8.7 per cent of GDP (Figure 2.6).

**Figure 2.6**
Foreign Direct Investment Inflows as a share of GDP

![Foreign Direct Investment Inflows as a share of GDP](image)


According to the FDI Confidence Index 2004, compiled by A.T. Kearney, Malaysia’s FDI outlook in the eyes of global investors in 2004 has improved significantly, gaining 8 places from 23rd position in 2003 to 15th position in 2004, out of 60 countries.
Malaysia is ranked the 5th most attractive destination in Asia in 2004 after China (1st), India (3rd), Australia (7th) and Hong Kong (8th). Malaysia is ahead of Singapore (18th), Thailand (20th), South Korea (21st), Indonesia (23rd) and Taiwan (25th).

According to the report, five of the six largest jumps in the index were registered by Asian markets, with Malaysia being among the countries enjoying the strongest improvement in investor confidence. Their robust performances were in part driven by North American and European investors seeking to diversify their operations across Asia and anticipating growth opportunities in these markets. Malaysia was also one of three Asian-Pacific countries which received higher confidence nods from Asian investors. The latest FDI Confidence Index, which surveyed 1,000 executive world-wide, found that 69% were optimistic about the global economic outlook. This is a sharp turnaround from the last two years. Following the September 11 event and a global economic slowdown, just 28% were optimistic in 2002, while in 2003 only 22% were optimistic. In the 2004 survey, 52% of the respondents said they plan to increase investments while only 8% said they intend to divest (A. T. Kearney 2004).

In its report, A.T. Kearney also considers Malaysia a “natural choice” for offshore services in view of its low costs, particularly for infrastructure, the most attractive business environment among emerging markets, strong global exposure of the workforce, and government support for the information and communications technology (ICT) sector. Other significant initiatives cited by A.T. Kearney include the government’s investments in infrastructure and developing the intelligent cities of Cyberjaya and
Putrajaya as part of the Multimedia Super Corridor project. Thus, numerous companies namely Motorola, Ericsson, IBM, Shell, DHL, HSBC and BMW, have located their regional offshore service centers in Cyberjaya.

The report further highlights that although Malaysia, with a population of only 25 million people, will be unable to match India’s and China’s scale advantages, effective government promotion of the IT and services sector will likely make Malaysia one of the strongest competitors to India’s dominance in business process outsourcing (BPO) in the next five years. The main weakness for Malaysia was in people skills and availability. Acute shortages of appropriately qualified labor occur in the sciences in particular and more generally, with the Malaysian labor market at close to full employment. There also is not the depth of experience in business process outsourcing as, for example, in India (A.T. Kearney, 2004).

The A.T. Kearney 2004 Offshore Location Attractiveness Index evaluated all countries based on corporate surveys, current offshore IT and BPO activities, local and national government initiatives to promote off-shoring, and the availability of skilled manpower. The top 25 off-shoring destinations were then analyzed through survey findings and client engagements against 39 measurements across three major categories: financial structure, people skills and availability, and business environment (Communications and Media Division, MIDA, 2005).
Table 2.2 Malaysia Key Economic Indicators

<table>
<thead>
<tr>
<th>Malaysia Key Economic Indicators</th>
</tr>
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<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Population</td>
</tr>
<tr>
<td>GDP</td>
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<tr>
<td></td>
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<tr>
<td>GDP Growth</td>
</tr>
<tr>
<td>Per capita income</td>
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<tr>
<td></td>
</tr>
<tr>
<td>Inflation rate</td>
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<tr>
<td>Labour force</td>
</tr>
<tr>
<td>Unemployment</td>
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<tr>
<td>Total export</td>
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<tr>
<td></td>
</tr>
<tr>
<td>Total import</td>
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<tr>
<td></td>
</tr>
<tr>
<td>Major exports</td>
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<tr>
<td>Major imports</td>
</tr>
</tbody>
</table>


Another study conducted by TNS Global Reputation Survey 2005 (global market information provider) indicated that Malaysia has been ranked among the world's top 10 countries as a choice business location. The study found that in terms of reputation as a base to do business, Malaysia was ranked seventh out of 41 countries surveyed worldwide; "the stated reputation of the country as a business location by its citizens is a good description of the internal perception of the country's current economic situation and the people's expectations about their own future economic development" (MIDA, 2005).
For example, many of the highly developed countries such as France, Germany and Japan find themselves in a situation of decreasing growth rates and increasing unemployment figures, resulting in a high degree of pessimism and low reputation level for business location. On the other hand, countries like Singapore (ranked fourth), South Africa (sixth), India (10th) and Malaysia, had developed strongly within the last five years, therefore enjoying public confidence and high reputation ratings. The TNS Global Reputation Study 2005 surveyed almost 37,000 people in 40 countries to gauge perception of their country's top corporations and institutions. Conducted during the fourth quarter of 2004, the survey involved residents across countries in North America, South America, Europe, Asia and Africa. The study detailed how residents rate the reputations of their nations' institutions such as healthcare, telecommunications, political parties, mail service, business location, financial/banking outlets and supermarkets. Malaysia was also ranked favorably in other categories, including fourth best in the world for Reputation of Telephone Providers and 10th for the Reputation of Primary Banks. Malaysia was also ranked second for both Reputation of Health Service and Reputation of Political Parties.

2.2.3 A Knowledge-based Economy

The last decade has seen a deepening and widening of Malaysia's industrial base as well as the further development of its services sector. As such, a strong foundation has been laid for the economy to move forward into the new globalized environment.
In the early 1980s, the Malaysian economy spiraled into a recession as a direct consequence of a massive fall in commodity prices. This drove the government to evaluate other development options. As a result of the commitment of the then Prime Minister, Dr. Mahathir, heavy industrialization was pursued as the engine of economic growth (Jomo, 1993). However, the unsustainability of mounting public expenditure being channeled into heavy industry projects and the lack of linkages between heavy industries and other sectors of the economy resulted in a shift towards an emphasis on the development of human capital (Malaysia, 1991; 1996).

The subsequent release of the Sixth and Seventh Malaysia Plans meant that Malaysia’s economic growth would be derived from gains in productivity rather than through accumulation of capital and labor. In the coming decade, an important policy component in Malaysia's development plans will be to enhance the knowledge content of the economy. There will be intensive research and technology development with support from venture capitalists, with ICT as the enabling technology. Research and development spending also will have to improve throughout the rest of the economy. Although the Government approved nearly RM1 billion in research and developments grants between 2001 to 2003, total research and development expenditure was only 0.4 per cent of GDP between 1996 and 2002, compared with 1.5 per cent for Australia, 2.1 per cent for Singapore and 3.0 per cent for the Republic of Korea (Table 2.3). To encourage the commercialization of research and development, the 2005 Budget Speech proposed locally owned companies which invest and own at least 70 per cent equity in a company that undertakes commercialization projects be granted tax deductions equivalent to actual
investment and a company that undertakes commercialization projects be granted Pioneer Status of 100 per cent for ten years.

Table 2.3 Expenditure and researchers in R&D, selected countries, 2002

<table>
<thead>
<tr>
<th></th>
<th>Expenditure on R&amp;D</th>
<th>Researchers in R&amp;D</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% of GDP 1996-2002</td>
<td>per million people 1990-2001</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>3.0</td>
<td>2880</td>
</tr>
<tr>
<td>Singapore</td>
<td>2.1</td>
<td>4052</td>
</tr>
<tr>
<td>Australia</td>
<td>1.5</td>
<td>3439</td>
</tr>
<tr>
<td>Malaysia</td>
<td>0.4</td>
<td>160</td>
</tr>
<tr>
<td>Thailand</td>
<td>0.1</td>
<td>74</td>
</tr>
<tr>
<td>Philippines</td>
<td>-</td>
<td>156</td>
</tr>
</tbody>
</table>

Source: World Bank 2004

The next 10 years will see a greater emphasis on human resource enhancement as availability of skilled and knowledge workers are a major pre-requisite to transform Malaysia from a production-based into a knowledge-based economy. To this end Malaysia has created the Multimedia Super Corridor (MSC) to accelerate Malaysia’s entry into a knowledge based economy and also to help realize Vision 2020 (MDC, 1997). Figure 2.7 provides a summary of Malaysian industrial policies from 1958 to 2000.
Figure 2.7: Industrial Development and Major Policy Initiatives, 1958-2000

PHASE I
- Pioneer Industries Ordinance 1958
- Import substitution
- Domestic Market Orientation

PHASE II
- Investment Incentives Act 1968
- Export Orientation
- Free Trade Zone
- New Economic Policy
- Industrial Coordination Act

PHASE III
- Launching of Fourth Malaysia Plan 1981-85
- Export Led Growth
- Heavy Industries Programme
- Industrial Master Plan 1986-95
- Promotion of Investment Act 1986
- Action Plan for Industrial Technology Development

PHASE IV
- Launching of Sixth 1990-95 & Seventh Plan 1995-2000
- Diversification of Manufacturing Base
- Foreign Direct Investment
- Increase the Role of the Private Sector
- Human Capital Development
- Research & Development

Adapted from Ali, 1992
At the same time, globalization, liberalization and the technological revolution have changed the rules and nature of international trade, investment and competition. A country’s competitive advantage is often dependent on its potential to generate, disseminate and utilize knowledge. The role of such developments in inducing new forms of growth was recognized in Malaysia’s Third Outline Perspective Plan, 2001-2020. This plan focuses on building a resilient and competitive nation while developing Malaysia increasingly into a knowledge-based economy. This recognition represents a self conscious pursuit of paradigm shift for Malaysia.

Of all the East Asian economies, the contribution of total factor productivity to growth has been lowest in Malaysia for much of the post war period. Total factor productivity is a measure of the efficiency of the production process considering several inputs or factors. It is expressed as a ratio of outputs to a combined measure of two or more factor inputs such as capital and labour (Noble, 1995). Malaysia’s average GDP growth of six per cent over 40 years was driven mostly by labour and capital growth, much more than most other countries in the region (Table 2.4). Total factor productivity has risen more substantially in recent years, representing about one quarter of GDP growth between 1996 and 2000 but still below the best practice countries (see Table 2.4).
Table 2.4
Total factor productivity and Malaysian growth. Postwar sources of growth in East Asia from 1950 to 1990

<table>
<thead>
<tr>
<th>Country</th>
<th>Output growth</th>
<th>Capital contribution</th>
<th>Labor contribution</th>
<th>Total factor productivity</th>
<th>Total factor productivity share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>6.8</td>
<td>3.7</td>
<td>0.8</td>
<td>2.3</td>
<td>33.8</td>
</tr>
<tr>
<td>China</td>
<td>5.5</td>
<td>2.9</td>
<td>2.2</td>
<td>0.4</td>
<td>7.3</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>9.0</td>
<td>2.8</td>
<td>3.1</td>
<td>3.1</td>
<td>34.4</td>
</tr>
<tr>
<td>Korea</td>
<td>7.4</td>
<td>2.9</td>
<td>2.4</td>
<td>2.1</td>
<td>28.4</td>
</tr>
<tr>
<td>Taiwan</td>
<td>8.6</td>
<td>2.6</td>
<td>3.1</td>
<td>2.9</td>
<td>33.7</td>
</tr>
<tr>
<td>Singapore</td>
<td>7.7</td>
<td>3.9</td>
<td>3.0</td>
<td>0.8</td>
<td>10.4</td>
</tr>
<tr>
<td>Indonesia</td>
<td>6.7</td>
<td>2.6</td>
<td>2.0</td>
<td>2.1</td>
<td>31.3</td>
</tr>
<tr>
<td>Malaysia</td>
<td>6.0</td>
<td>3.6</td>
<td>2.9</td>
<td>-0.5</td>
<td>-7.5</td>
</tr>
<tr>
<td>Philippines</td>
<td>4.9</td>
<td>2.4</td>
<td>2.3</td>
<td>0.2</td>
<td>4.1</td>
</tr>
<tr>
<td>Thailand</td>
<td>5.8</td>
<td>1.7</td>
<td>2.4</td>
<td>1.7</td>
<td>29.3</td>
</tr>
</tbody>
</table>

Source: Drysdale, et al, 2004

Although the World Economic Forum and the International Institute of Management Development (IMD) find that Malaysia rates well in terms of a range of criteria such as openness, infrastructure, finance and government policy, in the areas of management, labor skill and technology much lower rankings are obtained, certainly well below Malaysia’s average competitiveness ratings. For example, compared with an overall competitiveness country rank of 16 in the IMD World Competitiveness Yearbook 2004, in key knowledge economy areas Malaysia ranked much lower. By contrast, in the “Production Economy” areas of working hours, wage costs, employment growth, taxes, labor legislation and regulation, Malaysia ranks in the top 15 countries (IMD International, 2004). The Malaysian government acknowledged that Malaysia’s future competitiveness would depend increasingly upon knowledge rather than increases in labor and capital. The availability of knowledgeable and highly skilled personnel with thinking skills was identified as the ‘missing link’ in allowing Malaysia to develop into a
successful knowledge based economy and to sustain its position in the international market place against other rapidly industrializing economies (Economic Planning Unit, 2001). To bridge the ‘missing link’, the Eighth Malaysia Plan, 2001-2005 highlighted the importance of creating a strong resource base to support the development of the knowledge based economy so as to raise productivity and competitiveness. Strategies and programs were defined which were to increase the accessibility of education and training at all levels, strengthen the delivery system and improve the quality of education and training. To achieve these goals the Eighth Malaysia Plan set aside 20.6 per cent of the total Plan allocation for education and training and USD4.92 billion for education at pre-school through to tertiary levels, with USD2.42 billion for tertiary and teacher education. A further USD1.05 billion was allocated to vocational and skills training (Economic Planning Unit, 2003). As Table 2.5 shows, Malaysian Government spending on education accounted for 20 per cent of all public expenditure in 2001, nearly double the OECD country average (OECD, 2004).

<table>
<thead>
<tr>
<th>Table 2.5</th>
<th>Malaysia and OECD public spending on education</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public spending on education, share of all public spending</td>
<td>Malaysia (%)</td>
</tr>
<tr>
<td>Public spending on education (payments to institutions only) share of GDP</td>
<td>20.0</td>
</tr>
<tr>
<td>Public spending on tertiary education (payments to institutions only) share of GDP</td>
<td>7.2</td>
</tr>
<tr>
<td>Public spending on tertiary education (subsidies to households only) share of GDP</td>
<td>2.1</td>
</tr>
<tr>
<td>Public spending on tertiary education (education institutions plus subsidies to households) share of GDP</td>
<td>0.6</td>
</tr>
<tr>
<td>Public spending on tertiary education (education institutions plus subsidies to households) share of GDP</td>
<td>2.7</td>
</tr>
</tbody>
</table>

Source: OECD, 2004
2.2.4 Supportive Government Policies

Government policies that maintain a business environment with opportunities for growth and profits have made Malaysia an attractive manufacturing and export base in the region. The private sector in Malaysia has become partners with the public sector in achieving the nation's development objectives.

A major factor that has attracted investors to Malaysia is the government's commitment to maintain a business environment that provides companies with the opportunities for growth and profits. This commitment is seen in the government's constant efforts to obtain feedback from the business community through channels of consultation such as regular government-private sector dialogues. These allow the various business communities to air their views and to contribute towards the formulation of government policies which concern them.

Planning constituted the institutional centerpiece of the Malaysian economic development effort. Although Malaysia maintains a market economy, planning has served as a significant and increasingly comprehensive instrument of economic management and development, particularly in minimizing both internal and external shocks. Figure 2.8 provides a summary of strategies initiated by the state to minimize both internal and external shocks in Malaysia’s economic system. Figure 2.8 shows two prominent features. First, the Malaysian economic transformation is shaped by two major shocks (political and terms of trade). Second, the state has played an important role in minimizing the impact of these shocks. The 1985-1986 recessions was often cited as an
example of Malaysia’s vulnerability to external shocks. Malaysia’s rapid recovery from that recession was due to not only its favorable external conditions but largely its shift in government action. Fluctuation and reduction in export earnings had been cushioned by policies initiated to either minimize these shocks or develop a new strategy that encouraged growth in other sectors of the economy which were less prone to such shocks.
Figure 2.8: Strategies Used by the Malaysian Government to Minimise Shocks in its Economic System

SHOCKS

External
Fluctuations in commodity prices

Economic policies to minimize shock

First Malaysia Plan (1966-70)
Second Malaysia Plan (1971-75)
Third Malaysia Plan (1976-80)
Main Objectives:
Economic diversification, restructuring and modernization of the agricultural sector.

Internal
Political and social pressures

Economic policies to minimize shock

New Economic Policy *
Main Objectives:
Poverty reduction and redistribution of economic wealth achieved by higher level of growth

Fourth Malaysia Plan (1981-85)
Fifth Malaysia Plan (1986-90)
Main Objectives:
Encouragement of growth in the manufacturing sector with emphasis on heavy industry

Sixth Malaysia Plan (1991-95)
Main Objectives:
Redistribution of economic wealth through the diversification of the manufacturing sector and technological upgrading.

Seventh Malaysia Plan (1996-2000)
Eight Malaysia Plan (2001-2005)
Main Objectives:
Redistribution of economic wealth, achieved by development of human capital

*Operationalised in the Second, Third, Fourth, Fifth and Sixth Malaysia Plans

During the New Economic Policy (NEP) 1971-1990 plan period, the Treasury bureaucracy, and other bureaucratic organizations under the administrative guidance of the Prime Minister’s office became progressively involved in the planning process. The NEP became the foundation of and the yardstick for all economic and social policies. The NEP has two main objectives. The first prong is to reduce and eventually eradicate poverty, by raising income levels and increasing employment opportunities for all Malaysians, irrespective of race. The second prong aims at accelerating the process of restructuring Malaysian society to correct economic imbalance, so as to reduce and eventually eliminate the identification of race with economic function (Second Malaysia Plan, 1971, p.5). These changes were planned to occur over a twenty year Perspective Plan period (1971-1990) and the initiatives and strategies were carried out in the Second Malaysia Plan, Third Malaysia Plan, Fourth Malaysia Plan, and Fifth Malaysia Plan. When NEP expired in 1990, it was widely viewed as a success in that it had achieved its two major objectives: reduction of poverty and a more equitable distribution of wealth among the ethnic groups.

The incidence of poverty in Malaysia was determined using a poverty line income. The poverty line income is an income sufficient to purchase a minimum basket of food to maintain household members in good nutritional health and have access to other basic needs such as clothing and footwear, house rental, fuel and power, transport and communications, health care, education and recreation (EPU, 2002). Table 2.6 indicates that the poverty rate dropped from 49 per cent in 1970 to 15 per cent in 1990, a reduction of more than 50 per cent. The figure continued to decline to 8.7 per cent in 1995 and 6.1
per cent in 1997. However, in 1999, the poverty rate increased to 7.5 per cent as a result of the 1997 economic crisis. The incidence of hardcore poverty defined as half the poverty line income fell sharply from 6.9 per cent in 1985 to 1.0 per cent in 2002 (Economic Planning Unit, 1999; 2004). Although differences in poverty between States in Malaysia remain, poverty has declined across the board in Malaysia. Considerably fewer Malaysians live in poverty relative to Indonesians, Philippinos and Thais (ADB, 2004).

### Table 2.6: Incidence of Poverty (per cent), Malaysia, 1970-1999

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</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td>58.7</td>
<td>54.1</td>
<td>43.1</td>
<td>24.7</td>
<td>19.3</td>
<td>14.9</td>
<td>10.9</td>
<td>12.4</td>
</tr>
<tr>
<td>Urban</td>
<td>21.3</td>
<td>19.0</td>
<td>15.8</td>
<td>8.2</td>
<td>17.3</td>
<td>3.6</td>
<td>2.1</td>
<td>3.4</td>
</tr>
<tr>
<td>Total</td>
<td>49.3</td>
<td>43.9</td>
<td>33.8</td>
<td>18.4</td>
<td>15.0</td>
<td>8.7</td>
<td>6.1</td>
<td>7.5</td>
</tr>
</tbody>
</table>

Sources: Malaysia 1971; 1981; 1986; 2001

Despite the success of NEP (under the various Malaysia plans) in achieving political stability through poverty eradication and inter ethnic redistribution, there have been many criticisms of the large amount of public expenditure allocated to achieve NEP’s main objectives. Jomo (1990, 1994) argued that the reduction in poverty had been primarily attributed to economic growth brought about by an increase in productivity rather than by distributional policies. The government itself acknowledged that only 40 percent of the USD7.89 billion that was spent on poverty eradication from 1971 to 1988 reached the targeted poverty groups, with the balance going to administration and infrastructure costs (Jomo, 1991). There is also the issue that the key policy instrument used by the Malaysian government to reduce inter racial economic differences is the discriminatory
allocation of public expenditure in favour of the Malays. In order to improve the economic conditions of Malays, the government significantly increased its expenditure on projects designed exclusively for Malays’ participation (Lim, 1973, 1983). As a result, resources were often allocated inefficiently (Jomo, 1990). Such policy can be restrictive on business activity and can focus entrepreneurial effort on rent seeking behaviour (for example, through privatization, licences and contracts). Directly unproductive profit seeking behaviour which includes rent seeking behaviour, as a subset has been defined as ways of making profit, by undertaking activities which are directly unproductive (Bhagwati 1982). An economic rent is a return to a resource owner in excess of the owner’s opportunity cost (Tollison, 1987:144). It is often presumed that the existence and hence pursuit of rents in such circumstances tends to undermine economic development (Shapiro 1990: 127). To this extent, the policy may be counterproductive and thwart the development of a vibrant and resilient bumiputera business community. The Foreign Investment Committee guidelines contain more detail on bumiputera participation (Foreign Investment Committee 2004; Ministry of Finance, 2004).

If efficiency is the main criterion to judge the allocation of public expenditure on restructuring Malaysian society, then without doubt the ethnic based distribution policies have failed. This is because many of the programmes and projects initiated by the government since 1970 were riddled with corruption and crony interests (Jomo, 1994; Gomez and Jomo, 1997). If, on the other hand, political stability forms the basis for efficient economic production, and if initial conditions and shocks matter (Keynes, 1936; Kaldor, 1972; Nelson, 1996; Crafts, 1997; Setterfield, 1998), then undoubtedly the
amount of expenditure (which averaged about RM2.2 billion per year which constituted approximately 2 per cent of total government expenditure) allocated to establish stability can be considered a relatively small price to pay in return for rapid economic growth. As Rasiah and Shari (2001, p.75) pointed out, while ethnic based distribution policies, especially those involving the promotion of cronyn interests, sapped the economy of rents, many critical instruments assisted poverty alleviation and distribution, which helped enhance political stability. In addition, Khong (1991) and Rasiah and Shari (2001) reported that discriminatory allocation of public expenditure in favor of the Malays actually strengthened intra ethnic solidarity amongst the Chinese. According to Rasiah and Shari “it is believed that the Chinese, fearing increased ethnic encroachment into the market by the state, started ethnic networks to protect their interests in the private sector, thus uniting even the once clannishly divided Chinese” (2001:72). This uniting gesture further stabilized and minimized ethnic politics.

Another study conducted by Doraisami (1996) identified political stability as the leading factor behind Malaysia’s economic success. Doraisami surveyed members of the Malaysian Economic Society and asked them to rank in order their perceptions of the factors responsible for Malaysia’s economic success. The results of the survey in Table 2.7 suggest that a majority of the Malaysian economists considered political stability to be an important factor in the achievement of long term economic growth.
Table 2.7  
Factors Associated With Malaysia’s Economic Success

<table>
<thead>
<tr>
<th>Rank</th>
<th>Category</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Political Stability</td>
<td>547</td>
</tr>
<tr>
<td>2</td>
<td>Foreign Investment</td>
<td>419</td>
</tr>
<tr>
<td>3</td>
<td>Good Macro Management</td>
<td>371</td>
</tr>
<tr>
<td>4</td>
<td>Development Planning</td>
<td>331</td>
</tr>
<tr>
<td>5</td>
<td>Good Resource Endowment</td>
<td>324</td>
</tr>
<tr>
<td>6</td>
<td>Literate and Disciplined Workforce</td>
<td>294</td>
</tr>
<tr>
<td>7</td>
<td>Good Infrastructure</td>
<td>280</td>
</tr>
<tr>
<td>8</td>
<td>Government Guidance</td>
<td>274</td>
</tr>
<tr>
<td>9</td>
<td>Labor Market Flexibility</td>
<td>218</td>
</tr>
<tr>
<td>10</td>
<td>Minimal Government Intervention</td>
<td>202</td>
</tr>
</tbody>
</table>

Source: Doraisami, 1996, p.32

Table 2.8 presents Malaysian economists’ views on Malaysia’s manufacturing export success. Again political stability is ranked first among other factors.

Table 2.8  
Factors Associated With Malaysia’s Manufacturing Export Success

<table>
<thead>
<tr>
<th>Rank</th>
<th>Category</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Political stability</td>
<td>488</td>
</tr>
<tr>
<td>2</td>
<td>Foreign Investment</td>
<td>454</td>
</tr>
<tr>
<td>3</td>
<td>Export Promoting Incentives</td>
<td>414</td>
</tr>
<tr>
<td>4</td>
<td>Literate and Disciplined Workforce</td>
<td>317</td>
</tr>
<tr>
<td>5</td>
<td>Good Macro Management</td>
<td>297</td>
</tr>
<tr>
<td>6</td>
<td>Resource Endowment</td>
<td>270</td>
</tr>
<tr>
<td>7</td>
<td>Development Planning</td>
<td>254</td>
</tr>
<tr>
<td>8</td>
<td>Labor Marketing Flexibility</td>
<td>234</td>
</tr>
<tr>
<td>9</td>
<td>Government Guidance</td>
<td>231</td>
</tr>
<tr>
<td>10</td>
<td>Low Wages</td>
<td>209</td>
</tr>
</tbody>
</table>

Source: Doraisami, 1996, p.32.

Despite the constraints of the NEP, the Chinese equity ownership increased significantly from 27.2 per cent in 1970 to 44.9 per cent in 1990 (Gomez and Jomo 1997). In so far as the NEP seemed to respond to the problems of poverty, unemployment and inter-ethnic economic imbalances that had emerged before May 1969, it was received favourably and widely seen as a sincere attempt to transcend problems created by colonialism and perpetuated by laissez faire policies after Independence. It must also be noted that many
of country’s existing economic and political institutions and problems are rooted in the colonial experience, including the reforms in the 1950s to win hearts and minds from the communist-led, anti-colonial insurgency (Gomez and Jomo 1997). The emergence of an elite, politically influential group of businessmen since the mid 1980s has not been limited to Bumiputeras, despite the official ethnic bias of political patronage and the ethnic nature of national politics. There has since then been greater inter-ethnic elite cooperation in business matters. Although the NEP has not been a total success, many significant improvements had been achieved during its 20 year span (Lin, 1994). Commentators generally agree that this redistribution strategy at least partially explains the improvement in income distribution (Medhi, 1994; World Bank 1993). The NEP was conceived as a positive sum gain in improving the economic well being of the Malays, but not at the expense of others and in the context of a growing economy (Chowdhury and Islam, 1996).

At the same time, this policy of positive discrimination is changing gradually. In 2003, acceptance to public Malaysian universities was based solely on merit and foreign companies with new investments in manufacturing no longer have to have 30 per cent bumiputera ownership (Economic Analytical Unit, 2005). However, the marginalization and downgrading of distributional considerations as well as other non-economic concerns in favour of growth and industrialization is unlikely to resolve the complex problems continuing to divide and destabilize Malaysian society. Also, without the stability achieved through mutually acceptable compromise, it may be difficult to ensure the socio-political stability necessary for rapid industrialization and growth.
When the Seventh Malaysia Plan expired in 2000, Malaysia had successfully transformed from an agricultural production structure towards a modern manufacturing structure. Through initiatives set out by the state, the economy reduced its reliance on primary products, such as rubber and tin, and in the process become one of the world largest manufacturers of semiconductors and a sizeable producer of electronic and electrical products. Industry has supplanted agriculture as the major contributor to GDP, as illustrated by Table 2.9

Table 2.9: Gross Domestic Product by Sector, Malaysia, 1955-2000 (in percentage)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>40.2</td>
<td>40.5</td>
<td>31.5</td>
<td>30.8</td>
<td>27.7</td>
<td>22.8</td>
<td>20.7</td>
<td>18.7</td>
<td>10.3</td>
<td>8.7</td>
</tr>
<tr>
<td>Mining</td>
<td>6.3</td>
<td>6.1</td>
<td>9.0</td>
<td>6.3</td>
<td>4.6</td>
<td>10.0</td>
<td>10.4</td>
<td>9.7</td>
<td>8.2</td>
<td>6.6</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>8.2</td>
<td>8.6</td>
<td>10.4</td>
<td>13.4</td>
<td>16.4</td>
<td>20.0</td>
<td>19.6</td>
<td>27.0</td>
<td>27.1</td>
<td>33.4</td>
</tr>
<tr>
<td>Service</td>
<td>45.3</td>
<td>44.8</td>
<td>49.1</td>
<td>51.3</td>
<td>49.5</td>
<td>47.2</td>
<td>49.3</td>
<td>42.3</td>
<td>51.3</td>
<td>52.6</td>
</tr>
</tbody>
</table>


The data in Table 2.9 show that the manufacturing sector experienced an increasing trend, rising modestly during the 1960s. In 1990, the manufacturing sector surpassed the agricultural sector in contributing to GDP growth. Nonetheless, the agricultural sector still dominated production capacity of the economy, contributing 40.2 per cent, 27.7 per cent and 22.8 per cent of GDP in 1955, 1975 and 1980 respectively.

Although the incentives set out by the Malaysia Plans had brought about significant changes to both the production structure and exports of the Malaysian economy, the industrialization programme was not without criticism, particularly with the heavy
industrialization strategy implemented during the Phase 3 period (1981-85, Figure 2.7). Several authors (Jomo, 1990, 1994; Gomez and Jomo, 1997) argued that the push for heavy industrialization by the Mahathir administration was an expensive mistake. They argued that the economy had been burdened by unnecessary protectionist measures which required the infant industries to be sheltered. The scale of investments in terms of capital meant that there was less capital for other uses, leading to additional foreign borrowings and mounting foreign debts incurred by the public sector to finance the massive industrialization projects which peaked at USD7450 million in 1986.

Heavy industrialization has also failed to develop strong and extensive linkages with other sectors of the economy (Cheong and Lim, 1981; Malaysia, 1986; Jomo, 1990). The outputs of most of the heavy industries chosen by the Mahathir administration for development, such as steel, cement, petrochemicals, shipbuilding and repairs faced strong international competition due to excessive global production capacity with little likelihood of viability. This led Jomo (1990, p.128) to comment that “for a more integrated and balanced industrialization programme, the question is not whether or not to develop heavy industries, but rather which ones to support, for what ends, and under what conditions”. There was thus a need to reassess the heavy industrialization policy.

2.3 Privatisation and Government Linked companies

Privatisation is another part of the Malaysian transformation story. Government businesses usually are established in response to significant economies of scale and transaction costs, such as contracting costs and insecure property rights, which give rise
to natural monopolies (Economic Analytical Unit, 2005). A government assumes control if it is concerned about guaranteeing an adequate supply of essential goods and services at reasonable prices. Government may also establish these businesses in order to subsidise high risk markets and for political and distributional goals. However, in an environment with multiple calls on government funds, governments are coming under increasing pressure to improve the efficiency of their business interests. The privatization master plan guides the Malaysian Government’s privatization program. Between 1983 and 2003, 474 privatization projects were undertaken, transferring nearly 111,000 jobs from the Government payroll and raise over USD6.31 billion in revenue (Economic Planning Unit, 2004). The aims of the privatization program are to enhance economic competitiveness and reduce the government’s administration and financial burden (Tull and Reveley, 2002).

Nevertheless, the privatization process has slowed as fewer businesses are being made available for privatization and private sector investment is yet to recover to pre-1997 levels (Asian Development Bank, 2004). Privatisation, part of Malaysia’s liberalization package, appears to have been especially abused for the development and consolidation of politically linked businessmen (Gomez and Jomo 1997). This has involved the transfer of assets, other sources of income and significant control of the national economy to the politically influential. As Craig (1988:257) has noted, given its rather unique ‘political/bureaucratic/business complex’, privatization in Malaysia is ‘unlikely to be more than a rearrangement of economic and political power’. Extensive political nepotism and patronage have grown with privatization in the absence of an independent,
accountable monitoring body to ensure proper implementation of the policy. The possibilities for massive gains have therefore been high (Gomez and Jomo 1997). Despite this, the creation and deployment of rents in the Malaysian economy so far point to a combination of different forces at work. Rents have also been created and allocated in ways that encourage investments in new productive activities which have contributed to the diversification of the national economy from its colonial inheritance, as well as various industrialization campaigns, including export promotion, import substitution and heavy industrialization (see the case of Tan Sri Samsudin of Sapura cited in Gomez and Jomo 1997). In a sense Tan Sri Samsudin success has won him more opportunities. Such performance criteria have become increasingly significant in recent years and helps explain why rentier activity has not undermined Malaysian growth (Mansor 1993). Access to considerable resource rents has undoubtedly facilitated economic growth and diversification. Investments in agriculture and tourism have also been induced. In this regard, the availability of resource rents most notably from petroleum, petroleum gas, tin and timber has been very significant for growth, exports, government revenue and hence fiscal capacity, allowing the government a greater degree of latitude than that enjoyed by most other economies and governments in the world.

The other important goal of the creation and deployment of rents in Malaysia has been redistribution, especially along inter-ethnic lines. By providing rentier opportunities to some Chinese and Indian businessmen, the state has also managed to reduce dissent among the non-Malay communities (Gomez 1996). The case studies on Vincent Tan and T. Ananda Krishnan (Gomez and Jomo 1997) help to show how political patronage has
been beneficial for the growth of non-bumiputera companies under their control. By injecting these rents into publicly listed companies to get majority control, they have effectively used these quoted companies for corporate expansion. Yet although yielding handsome pecuniary returns, substantial profits and capital gains, the business operations of most Bumiputeras and some non-Bumiputeras benefiting from government allocated rents are mainly non-entrepreneurial (Gomez and Jomo 1997) although as Schumpeter has recognized, entrepreneurs have also captured rents (see Yoshihara 1988; Clad 1989; Mehmet 1990; Gomez 1994). There is probably much justification for these criticisms, since most politically connected businessmen have tended to concentrate their rent appropriating activities in the relatively protected import substituting manufacturing, services and other non-tradables such as real property, construction and infrastructure, while others have gained mostly from often complex paper shuffling, asset stripping and other similar corporate manoeuvres, rather than from significant gains in productivity or international competitiveness.

The attempts by corporate figures to tie up with influential politicians and the use of political patronage to develop new frontier businessman can also exacerbate tensions among rival business interests. This is likely to impede the development of a more dynamic, entrepreneurial and progressive capitalism in Malaysia. Since government leaders are aware of the importance of foreign capital for sustaining growth and particularly continued industrialization, privatization, especially for investments, has been actively promoted. Despite the rapid divestment, the Government still maintains a stake, although not necessarily a controlling one, in a large number of listed entities. In
2004, the Malaysian government oversaw 40 listed government linked companies, accounting for around 34 per cent of the total market capitalization of Bursa Malaysia. The combined assets of these companies are approximately USD61.05 billion or more than half of Malaysia’s GDP (Abdullah, 2004). While there is potentially some argument for having government involvement in corporatised businesses such as utilities and telecommunications, government involvement in private companies such as Nestle Malaysia appear harder to justify (Economic Analytical Unit, 2005).

The Vision 2020 statement envisaged the private sector driving economic growth. The Malaysian government has a plethora of ‘Master Plans’ to support Malaysia’s economic expansion. One of the issues influencing the Government’s involvement in planning is its desire to ensure an equitable development process. While a certain degree of planning is a sensible addition to any policy process, the overuse of plans has the potential to stifle entrepreneurial ability by making businesses over reliant on such guidance. The Malaysian government retains strong links with much of corporate Malaysia (Gomez and Jomo 1997). Petronas, the oil and gas company, and by far Malaysia’s largest company, is wholly government owned. Government controlled institutions have a majority equity stake in seven of the top ten listed companies and frequently trades in these stocks to drive the market up. The government also holds ‘Golden shares’ in strategic national companies such as Malaysian Airlines, Telekom Malaysia and Tenaga Nasional, an electricity company, which give the Government the final decision in the corporate direction of the business. Therefore, if the Government’s policy objectives differ from what might be best for shareholders, then minority shareholders suffer. The ability to
influence companies for policy purposes also suggests a certain lack of transparency and potentially raises issues about corporate governance. That said, in 2004 the Malaysian government introduced key performance indicators and performance-linked pay for government-linked companies in an effort to improve efficiency, reduce the budget deficit and possibly prepare government-linked companies for divestment. In practical terms, the Government is unable to sell significant shareholdings all at once. The size of their equity stakes preclude rapid divestment because of the impact it would have on the stock exchange (The Edge Malaysia, ‘Reforming the GLCs and Khazanah’, July 12, 2004, p.58).

At various times since Independence, the Malaysian Government has targeted industries it believed would contribute to Malaysia’s economic development, with varying degrees of success. Government attempts at influencing industry development and economic growth by ‘picking winners’ is a second best method of ensuring efficient use of an economy’s resources compared to markets. At present, there are direct and indirect tax incentives available for 262 activities ranging from the cultivation of tea, the manufacture of bicycles and the establishment of convention centres (Malaysian Industrial Development Authority, 2004). While the breath of incentives increases the cost to government, it lowers the risk of resource misallocation because the incentives are not focused on a single sector. Improvement in several crucial areas such as transparency, preferential treatment for bumiputeras and regulatory burdens facing business could enable Malaysia to attract the private investment it needs to drive the economy further.
Two examples of targeting are Proton the national carmaker and more recently, the Multimedia Super Corridor. Originally, the idea of having a national car company was to jump start the industrialization process by creating supporting industries such as component part manufacturing, research and development, distribution networks and engineering. Proton has gone some way to achieving these aims, directly and indirectly, creating 24 franchise holders, 350 component makers, 250 vendor companies, 100,000 jobs and investing close to USD2.1 billion in the domestic market (The Edge Malaysia, “Proton under microscope”, 2 August 2004). However this has come at a high cost. Duties ranging from 40 to 300 per cent on vehicle parts and cars protected Proton and the respective component manufacturers from competition. Only some of the component manufacturers are successfully serving international car makers and quality issues and insufficient overseas marketing have led to a systematic decline in Proton’s market share and profits.

The Multimedia Super Corridor is still in its infancy and it is too soon to comment on its success. The idea of creating a clustering effect for ICT and multimedia is not new. Penang has had considerable success in creating a cluster for the electronics industry, and Silicon Valley is a classic example of the benefits of clusters. What is different about the Multimedia Super Corridor is that it is government mandated rather than market driven. Some commentators suggest the Corridor has diverted companies that would otherwise have gone to Penang (Economic Analytical Unit, 2005) simply based on the tax and investment incentives business can obtain by being a Multimedia Super Corridor approved company. This is business diversion rather than creation. Aside from in
efficiencies, another problem arising from targeting is it creates an entrenched culture of rent seeking regarding investment decisions. In practically every government report, particularly ones discussing development, investment and tax incentives always are options listed to encourage investment. When the Government provides additional incentives for business to move into a particular area, investors end up chasing and expecting tax advantages, rather than basing their investment decision on market principles. Such behaviour also does not encourage an entrepreneurial spirit among domestic investors. A privatization program that is transparent, competitive and efficient will go some way to strengthening Malaysia’s investment climate. A more open privatization process also provides domestic firms with greater exposure to market forces and competition. Many commentators point out that in the past, privatization awards were made in an opaque manner, without public debate or competitive bidding, often with decades of long concessions going to politically influential companies or individuals lacking viable business plans (Far Eastern Economic Review, June 2004, Gomez and Jomo, 1997).

In response, the Malaysian Government has placed several privatizations on hold while policies and processes are reviewed by independent consultants for future sales. It also plans to make the bidding process for contracts more transparent, although details remain sketchy (Economist Intelligence Unit, 2004). Nevertheless, this could be a positive step if it results in a more transparent, competitive process (Asian Development Bank, 2004).
2.4 Governance and Transparency

In an economy where the government is heavily involved both through substantial infrastructure development and corporate holdings, it is particularly important that good principles of governance and transparency are applied in decision making. Transparency International ranked Malaysia 39 out of 146 economies in its 2004 Corruption Perceptions Index, better than Italy, the Republic of Korea and Greece with a score of 5 out of 10 (Figure 2.9). This is an improvement on 2002, but still lags behind a number of regional economies (Transparency International, 2004). To address this issue, the Malaysian government unveiled the National Integrity Plan in April 2004.

Three of the five stated aims are effectively to reduce corruption and abuse of power, enhance efficiency in the public service delivery system and overcome bureaucracy and enhance corporate governance. Measurable outcomes of the plan include moving Malaysia’s standing in Transparency International’s Corruption Perception Index to 30th position by 2008, a reduction in the number of corporate fraud cases and increasing the number of contracts awarded through open tender (Abdullah, 2004). The government has established the Malaysian Institute of Integrity to monitor the Plan’s implementation. Several programs have been introduced to address corporate governance issues. The mandatory Accreditation program requires directors of listed companies to undergo training programs to raise the standards of governance (Economic Planning Unit, 2003). Bursa Malaysia’s listing requirements have been refined to ensure listed companies prepare their annual audited accounts in line with standards approved by the Malaysian Accounting Standards Board. Bursa Malaysia also requires disclosure of compliance with
the Corporate Governance Code through its listing requirements. All listed companies must report on corporate governance in their annual reports and company directors must report separately on internal controls (Economic Analytical Unit, 2002). Bank Negara Malaysia has issued new regulations to improve governance in the banking sector, including guidelines governing the functioning and composition of banks’ boards of directors (Asian Development Bank, 2004). The Malaysian Code on Takeovers and Mergers, introduced in 1998, was designed to improve corporate governance and makes it a criminal offence to disseminate false or misleading information (Economist Intelligence Unit, 2004). Minority shareholders also have greater protection through lowering the class action requirement and strengthening the disclosure requirement of listed companies (East Asia Analytical Unit, 1999).

**Figure 2.9: Corruption Perception Index, score out of 10, selected countries, 2002 and 2004**

![Corruption Perception Index Chart]

Source: Transparency International, 2004

### 2.5 Coping with the Asian Financial Crisis

The literature on the East Asian crisis is now voluminous as well as contentious. At the risk of oversimplifying, we can identify two approaches to the issue. One looks at
exogenous factors such as the volatility of private capital flows and the behaviour of foreign investors affecting such behaviour. Private short term capital surged into the East Asian region on a wave of irrational exuberance. Foreign investors then deserted the region in a stampede, provoked by exaggerated fears of deteriorating economic fundamentals. Such volatility wreaks havoc on individual economies. Compounding the malaise in the region is the problem of Japan. Weakened by mediocre growth throughout the 1990s and stymied by a looming domestic recession, Japan has failed to act as a locomotive (Islam and Chowdhury, 2000).

The Japan effect is another example of an exogenous variable affecting the rest of East Asia. Sachs (1997) and Radelet and Sachs (1998) are prominent examples of mainstream economists who subscribe to the exogenous theory of the Asian crisis and believe that the policy fundamentals that characterized success in the past are intact. Politicians within the region are certainly sympathetic to the theory, most notably Dr. Mahathir Mohamed. Commentators representing international agencies such as Stanley Fischer of the IMF (Fischer 1998) and Joseph Stiglitz of the World Bank (Stiglitz, 1997) certainly ascribe some importance to the exogenous theory of the crisis but concede that domestic policy mistakes and institutional imperfections played a significant role in bringing about the crisis. Thus, the regional trauma originated from both exogenous and endogenous factors.

In its report on the East Asian crisis, the World Bank (1998) extends this explanation. The ADB (1998), in its annual survey of the region, concurs, as does the IMF (1998). The crisis in the region also reflects a deeper problem of governance. It stems from a mix of political patronage, financial sector frailties, weak corporate governance and lax
bankruptcy laws. When this mix evolves in a context of capital account liberalization, it can fuse a currency crisis and a financial crisis into a fatal phenomenon (Krugman, 1998, 1999). This is in brief the complex story of the East Asian crisis. Obviously, the generality of the explanation ignores country specific details. The fact that some economies have been affected a lot more than others implied that the domestic forces behind the crisis were more prevalent in some countries than in others. Such contagious behaviour can thus end up punishing both weak and strong economies. From a policy perspective, a great deal hinges on one’s convictions. If the crisis is believed to be the product of exogenous factors, then its solution lies in international assistance to the affected economies and reform of the global financial system. If the crisis is believed to be primarily the product of domestic policy errors and embedded institutional imperfections, a sustainable solution involves large scale institutional reform (Islam and Chowdhury, 2000).

The Asian financial crisis impacted severely on the Malaysian economy. Growth fell sharply and unemployment rose significantly. Timely responses from government enabled the Malaysian economy to weather the Asian financial crisis better than other regional economies. To help strengthen Malaysia’s financial and capital markets, the Government introduced the Financial Sector Master Plan and the Capital Market Master Plan, whose policies would be implemented between 2001 and 2010 (Economic Analytical Unit, 2005). In contrast to several other economies in the Asian region, Malaysia did not require IMF assistance to cope with the aftermath of the regional financial meltdown. Nevertheless, they did implement measures consistent with IMF
recommendations such as fiscal restraint in the early stages of the crisis (ADB 2004). The Malaysian authorities implemented controls on international capital flows in September 1998 in a bid to separate the influence of the currency on interest rate movements. It was hoped this would reduce speculative attacks on the currency and insulate the domestic economy from the effects of short term speculative capital flows (East Asia Analytical Unit, 1999). At the time these capital control measures were a controversial policy move because of supposed incompatibility between restrictions on short term capital flows and an open foreign direct investment regime. However, the Malaysian economy openness, high quality bureaucracy and lack of a balance of payments crisis allowed Malaysia the option of using these tools to stabilize the capital market (Asian Development Bank, 2004). Many economists now perceive capital controls as effective in achieving desired stability under certain extreme conditions, allowing recovery measures and reforms to be undertaken (Bhagwati, 1998; Krugman 1998; Rodrik 1998; and Stiglitz 1998).

Up until June 2005, conditions were not putting pressure on the Malaysian Government to revalue or float the ringgit. The terms of trade have declined over the past three years, but only by four per cent. Although the ringgit appears undervalued at the current peg, it is much easier to support an undervalued currency than an overvalued one, because all the monetary authorities have to do is provide ringgit to the foreign exchange market. In its 2004 Article IV consultation, the International Monetary Fund saw no reason to revalue the peg at this time citing a large current account surplus, comfortable level of reserves, low inflation, a relatively sound financial system, manageable external debt and a gradually diversifying economy (International Monetary Fund, 2004). Some Malaysian
commentators argue that the ringgit peg provides stability and certainty to business decisions, assisting long term strategic decisions. Another reason the Malaysian Government is not moving hastily is the Chinese renminbi peg to the US dollar. The discussion above on China’s industrial rise revealed that a large number of Malaysian exports compete with Chinese exports on world markets. A revaluation of the ringgit peg without a corresponding change in the renminbi peg therefore could have ramifications for the competitiveness of Malaysian exports vis-à-vis Chinese exports (Robert A. Mundell cited in the Star July 12, 2005). Despite current support for the peg, in the longer term the International Monetary Fund thought that a move toward greater exchange rate flexibility would be beneficial for Malaysia if it were well prepared, pursued from a position of strength, and carefully sequenced (International Monetary Fund, 2004). In reality, Malaysia’s external debt, trade balance and inflation rate will determine whether the Malaysian authorities make any changes to the current system (Economic Intelligence Unit, 2004). However, Malaysia de-pegged the ringgit on July 21, 2005 immediately after China abandoned its own currency peg (Ariff, 2005).

Bank Negara has now in place what is termed a “basket peg”, which means the ringgit is now tied to a basket of currencies. The ringgit is free but not floating freely. It is now under a “managed” float. Cynics would call it a “dirty” float. To them, a “clean” float is synonymous with a “free float”. The latter is labeled “clean” as the exchange rate under this mode is determined by supply and demand for the currency without government interventions. In the economics literature, there has always been a debate about whether or not the currency market should be left free or be tempered. In practice, most
governments do intervene, as it is too risky to let their currencies be exposed to the vagaries of market forces which tend to overshoot. Yet it would be a costly mistake to ignore the market signals (Ariff, 2005). A managed float provides a middle ground where one can have the benefit of exchange rate flexibility without excessive instability. The managed float implies that the central bank (Bank Negara) would intervene in the foreign exchange market to smoothen short term fluctuations. Thus, for example, the central bank would sell ringgit if there were a strong demand for the currency and buy ringgit if there were excess supply. Therefore, it was wise of the central bank to opt for a managed float, instead of re-pegging the ringgit (Ariff, 2005). A re-peg would have given vent to more speculation and waiting, without addressing the problems associated with exchange rate distortions. In fact, the current system, for all intents and purposes, is not different from the one the country had before the 1997/98 financial crisis (Ariff, 2005).

In mid 1998, the government established three institutions to cope with the sharp increase in the banks non performing loans (NPL), implement refinancing and restructuring, and strengthen the corporate reporting framework. The Government established the Corporate Debt Restructuring Committee (CDRC) to facilitate voluntary corporate debt restructuring between creditors and viable debtors. Danaharta, an asset management company, was established to buy NPL from the banking system. Danamodal, a special purpose finance vehicles was also established to recapitalize banks, strengthen the banking industry and help consolidate and rationalize the banking system (East Asia Analytical Unit, 1999). Establishing Danaharta and the CDRC also facilitated elimination of non core business as part of debt restructuring agreements (Khatri, 2001). After the
work completion of these agencies, Malaysian authorities will rely more on market based restructurings including mergers, acquisitions and bankruptcy, which require a strong legal and corporate governance framework.

To strengthen the banking system further, Bank Negara Malaysia (BNM) initiated a merger program for domestic banking institutions in 1999 to consolidate Malaysia’s 54 domestic financial institutions into ten ‘anchor’ banking groups (Bank Negara Malaysia, 2002). In 2004, BNM introduced a new interest rate framework. The Overnight Policy Rate (OPR) replaced the three month intervention rate as the indicator of monetary policy stance. The OPR has two roles. The first is a signaling device to indicate monetary policy stance; it serves as the primary reference rate in determining other market rates. The second is a target rate for the day to day liquidity operations of Bank Negara. Monetary operations of Bank Negara target the overnight inter bank rate. Liquidity management aims to ensure the appropriate level of liquidity that would influence the overnight inter bank rate to move close to the Overnight Policy Rate. The Monetary Policy Statement, released on a quarterly basis, announces changes to this rate. Should there be a change in the monetary policy stance between these periods an additional monetary policy statement would be issued.

Strengthened Malaysian bankruptcy laws give creditors greater protection. Restructuring undertaken under Danaharta and the CDRC have enabled creditors to recoup some of their investments. Authorities have reduced companies’ ability to impose restraining orders on creditors under the Bankruptcy Act (Economic Analytical Unit, 2002). During
2001 to 2003, the government undertook reforms to Bursa Malaysia, the Malaysian stock exchange as part of the Capital Market Master Plan to have an internationally competitive capital market. These reforms included creating a single consolidated Malaysian exchange to concentrate liquidity and widen access to investments and products, creating a single clearing house, shifting to a fully electronic trading system on the Malaysia Derivatives Exchange Berhad (MDEB), introducing a circuit breaker mechanism to promote market stability, giving greater access to initial public offerings, facilitating the listing of large companies, revamping listing requirements and deregulating restrictions on intermediaries so as to broaden market reach and improve accessibility (Economic Planning Unit, 2003). In further developments, Bursa Malaysia was demutualised in January 2004.

These efforts have introduced a considerable degree of stability to Malaysian financial markets. Non performing loans measured on a six month basis, have fallen from 8.1 per cent as at end 1998 to 6.2 per cent as at July 2004. Measured on a three month basis, non performing loans have fallen from 13.6 per cent to 8.3 per cent over the same period. The risk-weighted capital adequacy ratio of banks was 13.5 per cent in March 2004, up from 10.5 per cent in December 1997 (Bank Negara Malaysia, 2004). In August 1998, Bursa Malaysia was only one quarter of the value of the peak in February 1997, but has now regained about three quarters of its market capitalization (CEIC, 2004). The financial system has greater depth and strength than it did before the financial crisis, although as discussed above, the banking sector could consolidate further, delinquent loans still are higher than before the Asian Financial Crisis and foreign financial institutions have
limited Malaysian investment options (Table 2.10). That said, the finance sector certainly is strong enough to support further expansion of the Malaysian economy.

**Table 2.10 Financial system, 1997, 1998 and 2003**

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<tr>
<th></th>
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<tbody>
<tr>
<td>Number of financial institutions</td>
<td>86</td>
<td>80</td>
<td>44</td>
</tr>
<tr>
<td>Of which commercial banks</td>
<td>35</td>
<td>35</td>
<td>23</td>
</tr>
<tr>
<td>Domestic credit provided by the banking sector, per cent of GDP</td>
<td>165.1</td>
<td>159.8</td>
<td>154.2</td>
</tr>
<tr>
<td>Risk premium on lending, percentage points</td>
<td>3.8</td>
<td>1.0</td>
<td>3.7</td>
</tr>
<tr>
<td>Ratio of bank liquid reserves to bank assets, per cent</td>
<td>11.3</td>
<td>8.7</td>
<td>12.5</td>
</tr>
<tr>
<td>Non performing loans as a percentage of total loans</td>
<td>4.1</td>
<td>13.6</td>
<td>8.9</td>
</tr>
</tbody>
</table>


### 2.6 Liberal Equity Policy

Generally, foreign investors in Malaysia's manufacturing sector can hold 100% equity in projects which export at least 80% of their production. However, effective from 17 June 2003, 100% foreign equity holding is allowed for all investments in new projects, as well as investments in expansion/diversification projects by existing companies irrespective of their level of exports. Regulations and legislation covering companies, capital markets and accounting are straightforward and similar to many countries (Economic Analytical Unit, 2005). However, Malaysia does not have a national competition policy and only energy and the communications and multimedia sector have made legal provisions for competition policy. In other sectors, competition regulation mostly is undertaken through control over prices and entry conditions, for example permits and licences. These controls aim to achieve socioeconomic objectives, such as encouraging bumiputera entrepreneurship rather than to promote market competitiveness. The absence of formal
competition policies potentially can make it difficult for regulators to deal with problems such as collusion (Lee, 2004).

Foreign companies in the manufacturing sector are allowed to employ expatriates where certain skills are not available in Malaysia. A company with foreign paid-up capital of US$2 million and above will be allowed up to 10 expatriate posts, including five key posts, that is, posts that are permanently filled by foreigners. The Government also requires foreign investors, to the best of their ability, to recruit and train Malaysians so as to reflect the country’s population composition at all levels of employment (Foreign Investment Committee, 2004). That said, expatriate workers are likely to remain an important source of labour in certain industries for a number of years.

2.7 Attractive Tax Incentives

Malaysia's company tax rate is attractive at 28% and is applicable to both resident and non-resident companies. Malaysia also offers a wide range of tax incentives for manufacturing projects under the Promotion of Investments Act 1986 and the Income Tax Act 1967. The main incentives are the Pioneer Status, Investment Tax Allowance, Reinvestment Allowance, Incentives for High Technology Industries and Incentives for Strategic Projects and Incentives for the Setting-up of International/ Regional Service-based Operations. Malaysia also has a very high trade orientation, quite low average tariffs, modest inter industry tariff dispersion and limited incidence of non-tariff barriers (Economic Analytical Unit, 2005). Malaysia is a member of the Cairns Group, and is an active member of the World Trade Organization (WTO) and of regional economic
arrangements including the ASEAN Free Trade Area (AFTA) and the Asia Pacific Economic Cooperation. The Malaysian economy is relatively open to both trade in goods and foreign investment, although rice and automotive products are notable exceptions (World Trade Organization, 2001). In the AFTA context, Malaysia places a high priority on the early implementation of the common effective preferential tariff scheme which provides for concessional tariffs on intra-ASEAN trade. However, Malaysia continues to offer significant protection for its automotive industry. Malaysian market access for foreign-service providers remains limited in the financial and professional services sectors. The car industry, in particular, attracts substantial tariffs, ranging from five to 200 per cent which may have hampered a recovery in the Malaysian imported car market (Athukorala, 2002).

According to the World Trade Organization (2001), while the automotive sector has been successful in winning a large share of the domestic market, its exports are modest, contrary to stated objectives, suggesting a lack of external competitiveness. In January 2004, the Malaysian Government reduced tariffs on cars sourced within the ASEAN region as part of their requirements under the ASEAN free trade agreement. However, the Government then increased the excise tax on all cars, both domestic and international, but gave a 50 per cent rebate to domestically produced vehicles (Far Eastern Economic Review, ‘Proton on a slippery slope’, July 15 2004, p.54). In effect, higher excise duties replaced the reduced import tariffs to maintain protection of domestic manufacturers, reducing the incentive for Proton and other local car makers to improve efficiency. The excise tax rates are effective for one year. The Government also announced it would
delay further a complete harmonization of tariffs for the automotive sector from 2005 to 2008.

2.8 A Vibrant Business Environment

Malaysia's market-oriented economy, supportive government policies and a large local business community that is ready to do business with international corporations have made Malaysia a highly competitive manufacturing and export base. A market-oriented economy and government policies that provide businesses with the opportunity for growth and profits have made Malaysia a highly competitive manufacturing and export base. In addition, Malaysia's rapid move towards the k-economy allows companies to do business in an environment that is geared towards information technology. One of Malaysia's major pull factors is its large pool of young, educated and trainable workforce. Many of Malaysia's university graduates are trained overseas in fields such as engineering, and accountancy, allowing them to adapt easily to an international corporate environment. English is widely used in Malaysia, especially in business, thus facilitating the investor's communication with local personnel and suppliers. The country's legal and accounting practices derived from the British system are familiar to most international companies.

Property rights generally are well protected in Malaysia, although there is some international concern with the enforcement of intellectual property despite recent strengthening of legislation. Both foreign and domestic investors are entitled to fair compensation in the event the Government appropriates investors’ assets (Malaysian
Industrial Development Authority, 2004). Foreign companies doing business in Malaysia often stipulate in their contracts that any potential litigation must take place in foreign courts (Economist Intelligence Unit, 2004). Malaysia is also a member of the World Intellectual Property Organization and a signatory to the WTO Agreement on Trade Related Aspects of Intellectual Property Rights. Despite these improvements, Malaysia remains on the intellectual property “Watch List” along with 34 other economies. Pirated software accounts for 63 per cent of software in use in Malaysia, less than countries such as China, Vietnam, Indonesia, the Philippines and Thailand but still much higher than Singapore, Australia or Korea (Figure 2.10).

In its Watch List statement, the Office of the United States Trade Representative expressed concern about the continued high rate of production and export of pirated optical disc media, counterfeiting, lack of effective patent and data protection for pharmaceutical products and lax enforcement (United States Trade Representative, 2004). This in turn requires stricter enforcement of intellectual property rights. The legal foundation exists for intellectual property rights, but it would seem there could be greater enforcement of these rights (Asian Development Bank, 2004).
2.8.1 Chambers of Commerce and Industry

In Malaysia there are various chambers of commerce and trade associations made up of corporations from different countries. These organizations are invaluable sources of general business information, advice and assistance, and complement the role of government agencies such as MIDA (Malaysia Industrial Development Authority). The major organizations are the Malaysian International Chamber of Commerce and Industry (MICCI), Federation of Malaysian Manufacturers (FMM), the Japanese Chamber of Trade and Industry (JACTIM), and American-Malaysian Chamber of Commerce (AMCHAM), as well as several trade associations such as the Malaysian-American Electronics Industry (MAEI) Group.
2.8.2 Developed Financial Facilities

A well-developed financial and banking sector has enhanced Malaysia's position as a dynamic export base in Asia. Sophisticated financial facilities are available through domestic and foreign commercial banks and their nationwide network of branches. There are also representative offices of several foreign banks that wish to establish a presence in the region. Besides the commercial banks, merchant banks, finance companies and industrial finance institutions are major sources of credit to the industrial sector in Malaysia. Exporters in Malaysia can also take advantage of the credit facilities offered by the Export-Import Bank of Malaysia Berhad (Exim Bank), while another institution, Malaysia Export Credit Insurance Berhad (MECIB), offers export insurance cover and guarantees. To complement Malaysia's financial system, the government has established an international offshore financial centre (IOFC) on the island of Labuan located off the north-west coast of Borneo. Companies in Labuan enjoy minimal taxes as well as confidentiality. To-date, more than 3,500 offshore companies have started their operations in Labuan. These include offshore banks, trust companies, and insurance and insurance related companies. The Labuan Offshore Financial Services Authority (LOFSA) is the agency which promotes and develops Labuan as an IOFC (MIDA 2005).

Over the last three decades, Malaysia has developed a large pool of ancillary and supporting industries that was initiated with the entry of MNCs (Multinational companies) into the country. These MNCs, especially those which pursued active vendor development programmes, have contributed greatly towards the development of local small-and-medium scale industries (SMIs) that are highly competent and competitive.
with some even penetrating export markets (MIDA, 2005). Most large Malaysian companies have been involved in trade and industry for generations, and many have excelled in international and regional markets. Thus, foreign investors seeking joint-venture partners in Malaysia will be able to select from a wide range of companies to find one that matches their needs. MIDA also assists foreign investors in business matchmaking to start joint-venture projects or to undertake contract manufacturing.

2.9 Vision 2020

Malaysia is a nation whose growth has been carefully shaped and guided by strategic five year development master plans. Providing the ultimate backdrop to these plans is Vision 2020, a national agenda that sets out specific goals and objectives for long term developments (Abdul Hamid, 1993). Vision 2020 envisages that Malaysia shall become a fully developed and industrialized country by the year 2020 in all aspects. The Malaysian government announced Vision 2020 in 1991 following several years of slow growth relative to the 1970 to 1980 period. Vision 2020 outlined a broad plan for Malaysia to achieve developed economy status by the year 2020. Specific targets in the statement included increasing real GDP eightfold between 1990 and 2020 translating to average annual growth of seven per cent and increasing per capita income by a factor of four. In broader terms, attaining economic competitiveness involved sectoral diversification, productivity gains, technology usage, low inflation and entrepreneurship. The Government expected to support these goals through providing a supportive legal and regulatory environment, prudent fiscal and monetary policy management, supportive
physical infrastructure and economic deregulation. Vision 2020’s nine main objectives were to establish:

1. a united, peaceful, integrated and harmonious Malaysian nation;
2. a secure, confident, respected and robust society committed to excellence;
3. a mature, consensual and exemplary democracy;
4. a fully moral society with citizens strongly imbued with spiritual values and the highest ethical standards;
5. a culturally, ethically and religiously diverse, liberal, tolerant and unified society;
6. a scientific, progressive, innovative and forward looking society;
7. a caring society with a family based welfare system;
8. an economically just society with inter ethnic economic parity and;
9. a fully competitive, dynamic, robust, resilient and prosperous economy.

The policy also stated that the Government would reduce its role in economic production and business, but left open the option to intervene if authorities deemed it necessary in order to achieve their goals. In addition, the policy also envisaged a more competitive, market disciplined, outward looking, dynamic, self reliant, resilient, diversified, adaptive, technologically proficient and entrepreneurial economy with strong industrial links, productive and knowledgeable human resources, exemplary work ethics and strong emphasis on quality and excellence. Up until 1997, real GDP growth was ahead of schedule in terms of attaining an eightfold increase in real GDP by 2020. However, the Asian financial crisis saw real GDP fall dramatically in 1998. In mid 1991 after the expiry of NEP, the government announced a new National Development Policy (NDP) in
conjunction with a ten year Second Outline Perspectives Plan (OPP2) for 1991 to 2000 as well as the Sixth Malaysia Plan (6MP) for 1991-1995. Hence while the OPP2 and 6MP were supposed to provide medium term economic policy perspectives, Vision 2020 provided the long term objectives. In fact Vision 2020 reiterated some of the major policy changes introduced by the government especially as the economic liberalization undertaken since the mid 1980s encouraged the private sector with privatization and some deregulation (Gomez and Jomo 1997). The Vision 2020 framework proclaimed that there can be no fully developed Malaysia until Malaysians can overcome all challenges that have confronted Malaysians since its independence (Mahathir, 1991).

Understandably, there has been some enthusiasm, especially on the part of non bumiputeras, for Vision 2020’s explicit commitment to forging a Malaysian nation (bangsa Malaysia) transcending existing ethnic identities and loyalties. But whereas the NEP sought national unity in improved inter ethnic relations, ostensibly to be realized by achieving inter ethnic economic parity, Vision 2020’s goal stresses an equally narrow, materialistic and economistic emphasis on growth (Gomez and Jomo 1997).

However, while not representing new policy changes in a real sense, it nonetheless made economic policies already in place more explicit, coherent and legitimate. Whereas the earlier policy changes were often justified as temporary responses to the recession and as concessions to revive the economy, the post 1990 policy announcements were legitimized as the imperatives of rapid modernization, the promise of a good life in the future and the rapid growth and industrialization that have occurred since the late 1980s. Whether Vision 2020 adequately addresses the main contemporary challenges faced by Malaysian
society is a different question. It has certainly shifted attention away from the previous narrow emphasis on inter-ethnic distributional concerns without abandoning them altogether. It has also given priority to the challenge of late industrialization without seeming oblivious of human welfare. The unique quality of Vision 2020 is that it aims to achieve the status of a developed country that is distinctive and molded according to its own features without following others. It has its own specification and identity, whereby Malaysia should not be developed only in the economic sense but be a nation that is fully developed along all dimensions; economically, politically, socially, spiritually, psychologically and culturally (Okposin et al. 1999)

2.10 Conclusion

Investment is important to Malaysia. It is sought as a source of capital and foreign exchange and as a means of securing industrial technology, managerial expertise, marketing know-how and business networks to achieve higher levels of growth, employment, productivity and export performance. Investment has contributed significantly to Malaysia’s economic development and has made possible the transformation of the country from a producer of primary commodities to a modern industrializing economy. The Malaysian Government encourages growth in higher value activities and sees the economy moving to high technology and knowledge based industries. Although targeting certain industries remains entrenched in Malaysian policymaking there are encouraging signs that the focus is shifting towards creating an enabling environment for private sector business to drive investment and economic growth. In 2003, the Government unveiled new measures to improve further the
investment climate and lure back foreign investment but a number of constraints remain, in particular a shortage of skilled labor. Malaysia’s strategy towards high technology sectors also requires stricter enforcement of intellectual property rights. Although the legal foundation exists for these rights, court enforcement of laws has been inadequate. Malaysia’s progress in structural reforms has important implications for foreign investment. A privatization review recently initiated by the Government under which sales of controlling stakes in state enterprises are being postponed while independent consultants review the procedures and plans for future sales could be a positive step if it results in a more transparent, competitive process (Asian Development Bank, 2004).

Strengthening education is an important part of the Malaysian Government’s development goals. The generally high quality and depth of Malaysia’s educational system is one of the reasons for Malaysia’s economic success. However, education is also one of the biggest challenges as Malaysia develops from a production to a knowledge-based economy. The openness of Malaysia’s economy means education is a crucial part of the enabling economic environment, providing business with the skills they need to compete successfully on the world stage. For this reason, expanding research and development, improving teachers’ skill and encouraging Malaysians to embark on further study are important goals. Perhaps the biggest challenge facing Malaysia is implementing the various policies designed to promote growth and economic restructuring. The top levels of government have advanced several ideas that, if implemented, will take Malaysia to the next level of development. Thirteen years ago, the Vision 2020 statement identified the need for small and medium enterprises to be dynamic, self reliant and
prepared to think long term. However, a plethora of incentives and grants still are available for domestic investors. Incentives can be restrictive on business activity and can focus entrepreneurial effort on rent seeking behaviour. To this extent, incentives may be counterproductive and thwart the development of a vibrant and resilient business community. Domestic private investment remains low and some fear that the Government’s statements on how the challenges ahead will be addressed are expressions of intent that might not be realized.

However, there are encouraging signs that the Government is leaning towards a more enabling environment. The Government is changing its focus to infrastructure quality not quantity, with no new mega projects in the pipeline. In 2004, Prime Minister Abdullah Badawi pointed out that the Malaysian Government already had many incentives and did not believe that incentives had to be monetary. Rather the environment must be conducive to doing business at a low cost. The Prime Minister also announced that Proton could not depend on government protection forever (Far Eastern Economic Review, “Wish List”, June 3, 2004, p.20). Bank Negara’s governor also has stated the public sector’s role in the economy will be scaled back and will primarily focus on providing an enabling environment to strengthen the role of the private sector in the economy (The Edge Malaysia, “Economic Rebalancing to intensify, says Zeti”, 4 August 2004). On all measures, Malaysia’s business environment is attractive despite several issues that are considered to being restrictive on business activities. It is relatively easy to establish a business in Malaysia or with a Malaysian company. The legal and regulatory environment is similar to many commonwealth countries and few industries are
completely off limits to foreigners. The average Malaysian’s quality of life also has improved in line with the stronger economic growth. The challenge now for Malaysia is to maintain this momentum. Policy makers will do well to remember Krugman’s words in his open letter to former Prime Minister Mahathir on the day capital controls were announced: “Remember, above all, that the point of this policy departure should be purely and simply to buy space for economic growth. It should not be used in an attempt to prove points about the soundness of the pre-crisis economy or anything else. If Malaysia truly does succeed in achieving a recovery that will be lesson enough for the rest of us” (Krugman, 1998).
CHAPTER 3 LITERATURE REVIEW

3.1 Introduction

Chapter one highlighted the need to research into the partner selection issues surrounding strategic alliances as these have been identified as the major determinant of success or failure. It also noted that this need is very urgent in a developing country context, particularly Malaysia. Malaysia has had in existence a number of strategic alliances encompassing various sectors in the industry but these have not been researched previously to establish how these alliances have been selected and eventually performed.

The survey of literature on strategic alliances is presented in three sections within this chapter. The first section reviews definitions of strategic alliance. This is a critical step because strategic alliance is complex, with our understanding of how strategic alliance is created significantly over time. The second section looks at the evolution of existing theories to the phenomenon of strategic alliances, roles, motivation and challenges in organizations. This section provides a historical context to the literature and draws on learning from disciplines considered to be parent theories of strategic alliance. The third section compares and contrasts previously proposed theories, models and experiences relating specifically to strategic alliance in organizations. A representation of these key literature areas, is outlined in Figure 3.1 below.
The general aim of a literature review is to build a theoretical foundation upon which the research is based by reviewing the literature to identify research issues which are worth researching because they are controversial and have not been answered by previous researchers (Perry 1994: 5). In the process, the review not only centers on the research problem but also on the links between the research problem and the wider body of knowledge. In other words, the review should demonstrate a link between the immediate field of the research problem and its parent discipline. The literature may be used in sharpening the focus of the study and to give structure to its questions and designs. In all cases, the researcher needs to connect the proposed study to the literature (Punch, 1998). In following these established rules, the researcher has sought to become familiar with the literature on the strategic alliance as the parent discipline of this thesis, which in turn has directly given rise to strategic alliance partner selection as the immediate discipline.

3.1.1 **Globalization**

The major factors underlying the growth of alliances are most commonly cited as the globalization of tastes and markets, and the rapid spread and ever shortening life span of modern technology. Levitt (1960) is credited with having drawn attention to the increasing homogenization of taste leading to global markets. Since Levitt’s (1960)
influential article was written, the process has gained pace despite numerous researchers’ (Ohmae, 1985; 1989, Porter, 1986; Douglas and Wind, 1987; Bleeke and Ernst, 1991) attempts to show that the process only applied to a narrow range of industries, for example, consumer electronics. Kotler (1986) suggests, for instance, that no more than about three per cent of the world’s production is truly global. Ohmae’s research (1989), however, has shown that over 600 million consumers in the triad (United States of America, European Union and Japan) are developing strikingly similar consumer needs in a wide range of areas. This process of globalization has been accelerated in recent years by improved communication, greater travel both for business and leisure, and increased spending power. Chandler (1990), in fact takes the globalization of markets as a given in his analysis, Scale and Scope: The Dynamics of Industrial Capitalism. If the globalization thesis is accepted, its impact on the global strategy of the MNC will be a major one. Hrebiniak (1992) pointed out:

*Competitive advantage under global strategy is derived, in large part, from the sharing and leveraging of skills or capabilities across country boundaries.*

Takeuchi and Porter (1986), for example, demonstrate how international marketing can lead to opportunities for major economies of both scale and scope by stimulating global thinking, and by ensuring that this thinking influences the configuration of their value chains, in part through the centralization of marketing back up, and in helping the organization develop universal, modified or country tailored products as perceived circumstances dictate, dependent upon the degree of country specific demand in each country served.
Stopford and Turner (1985) reinforce the argument that there is a need for globalization, by adding the technology dimension, pointing out that all of what they describe as the meta-technologies, namely micro electronics, genetic engineering and advanced material sciences is subject to global competition. They suggest that the major forces leading to globalization are:

a) technology, principally through the micro electronics revolution;

b) cultural evolution, that is, the heterogenisation and homogenization of tastes through media and other forms; and

c) the breaking down of barriers, for example, by deregulation and economic integration.

Another key trend driving strategic alliance growth is the globalization of business and of knowledge used in business. The importance of knowledge, in addition to the traditional economic forces of labour, land and capital, to wealth accumulation has received considerable attention. The rapidity with which knowledge can be communicated and translated globally into new products and services has contributed to the growing use of strategic alliances in today’s highly competitive, global environment (Badaracco, 1991; Davenport and Prusak, 1998; Roos et al. 1997).

There is general agreement in the literature that the movement is not all one way, and that the secret of organizational commercial success is as much in identifying the areas where local responsiveness is key, as those where a global product is appropriate. Ghemawat and Spence (1986) propose the development of a globalization index focusing on the
drivers and impediments to globalization. Overall, they conclude that the countries ripest for global product penetration are small countries with metropolitan but expensive tastes. Piest and Ritsema (1990) also offer a word of caution in rushing to the theme of ubiquitous globalization by enumerating the large number of material, technical and fiscal barriers that exist in the European Union after 1992 and which will, therefore, act as a brake to the market globalization process.

Overall, however, globalization is taking place in a growing range of industries, and organizations looking to survive over the medium term future will need, it is suggested, not just to have a good product that will sell well in a single country, but one with a more global market appeal. Increasingly, organizations will need the resources, either alone or in partnership with others, to produce and market goods on a world wide scale, and the ability to identify and achieve sustainable competitive advantage in global terms. In this connection, Auster (1987) notes:

*Improved information and communication systems allow rapid global transactions. Improved transportation systems give companies easier access to faraway markets. Both of these factors accelerate the rate of technological diffusion and create increasing socio-economic, technological and cultural exposure.*

### 3.2 Defining Strategic Alliance

The purpose of this section is to establish a working definition of “strategic alliance”. This is important because it emerges as one of the key contributions of this thesis to the general corpus of knowledge on alliance partner selection. Numerous definitions abound concerning strategic alliances from varied authorities. At the outset it should be noted that the term strategic alliance connotes a process of inter organizational linkages or
networks. Essentially, what is anticipated here are different forms of cooperation and collaboration among participating organizations (Buttery et al. 1999: 415). Therefore, because of the generic nature of the phenomenon, the term strategic alliances has been used interchangeably with concepts such as business networks, clusters, strategic partnering, collaborative arrangement, cooperative strategy, flexible specialization and linkages.

Buttery et al. (1994: 17) prefer business networks in their usage and define it as “two or more organizations involved in mutually beneficial relationships that maintain all participants as separate corporate entities”. Their definition implies that although partners in a network may carry on business operations independently from the network, they may pool skills and resources leading to a new venture in order to jointly create an advantage (Buttery et al. 1998:27). The freestanding nature of partners implied in this definition is important for this thesis and in line with Lipnack and Stamps’ (1986) position that describes participants in a network as freestanding and cohering through shared values and interests.

Spekman et al. (1998) note that despite differences in organizational form portrayed in the literature such as joint ventures and co-marketing agreements, each of these alliance definitions converges on several salient themes; goals that are both compatible and directly related to the partners’ strategic intent, the commitment of and access to partners’ resources and opportunity for organizational learning. Hence for them, a strategic alliance is a close, long term, mutually beneficial agreement between two or more partners in
which resources, knowledge and compatibilities are shared with the objective of enhancing the competitive position of each partner (Spekman et al. 1998:748).

Whilst this definition is more comprehensive than that of Buttery et al. (1994) given above, the inclusion of the descriptor ‘long term’ by Spekman et al. is slightly problematic because strategic alliance should be measured not by time frames but by the attainment of respective partners’ objectives. Yoshino and Rangan (1995:104) make this same point in response to erroneous and simplistic interpretations by many researchers of widespread announcements on dissolution of alliances as ‘failures’. Yoshino et al. (1995) argue convincingly that alliance expiry dates, termination of alliance because of accomplishment of main objectives, or conclusion of the life span of an alliance due to lack of alignment or fit between business and strategy resulting from environmental shifts after years of cooperation, could all scarcely be construed as ‘alliance failure’. Cauley De La Sierra (1995:5) also makes the same point in noting that there is no set time limit for alliances, ‘their duration is a function of the objectives and structure of the partnership, the prevailing business conditions and the management capabilities of the partners’. Moreover, because revenues or intangible benefits from each key account should exceed the costs of establishing and maintaining the relationship within a certain time span (Blois 1999), relationship longevity is not a guarantee of customer profitability. Thus, some alliances may be short lived while others may be long term, depending on goal attainment.
Wheelan and Hunger (2000) offer a simple but profound definition of strategic alliances that differentiates them from normal company to company dealings. For them a strategic alliance is “an agreement between firms to do business together in way that go beyond normal company to company dealings, but fall short of a merger or a full partnership” (Wheelan et al. 2000:125). Therefore, alliances can range from informal handshake agreements to formal agreements with lengthy contracts where parties may exchange equity or contribute capital to form a joint venture. This definition is fairly flexible as it includes both formal and informal networks.

Cauley De La Sierra (1995) offers important insights into the international dimensions of alliances and the differences between alliances and traditional joint ventures. She prefers to use the term ‘competitive alliance’ to convey the point that alliances are ventures between strong international companies that generally remain competitors outside the relationship (Cauley De La Sierra 1995:4). She adds that most alliances have well defined, often limited strategic objectives and are designed to serve regional and global markets. Moreover, regardless of structure, all alliances entail some degree of intercorporate integration among partners; less integration than an outright merger but more than a simple buy/sell relationship (Cauley De La Sierra 1995:4). More importantly, she makes the point that alliances are different from the traditional multinational company (MNC) host joint venture (JV) and the strong weak relationships inherent in such ventures because they are partnerships among equals. Furthermore, she makes the same point as that of Doz et al. (1998) that many companies are entering into not only single ventures, but also entire networks of alliances which portray high fluidity and flexibility.
Beamish and Killing (1996), in the same vein as Cauley De La Sierra (1995), emphasize the international aspect of alliances and explain why they are referred to as strategic in nature. They points out that international alliances are cooperative arrangements formed by organizations from two or more countries (Beamish et al. 1996:1613). An alliance is considered strategic when it involves the allocation of resources by the alliance manager to areas deemed pertinent to the alliance’s future success, vis-à-vis value creation.

Webster’s dictionary defines strategic as “important” and alliance as “association of interests”. Strategic alliances then are associations important to alliance partners and formed to further their common interests. They can involve franchising and licensing agreements, partnership contracts, equity investments in new or existing joint ventures and consortia (Mockler, 1999).

Parkhe (1993) defined strategic alliances as “relatively enduring inter-firm cooperative arrangements, involving flows and linkages that use resources and/or governance structures from autonomous organizations, for joint accomplishment of individual goals linked to the corporate mission of each sponsoring firm.” He pointed out that strategic alliance can take many forms. They can be either permanent strategic alliances that do not predetermine dissolutions of the strategic alliances or time limited strategic alliances that predetermine dissolutions of strategic alliances.

Strategic alliance forms are given a wide variety of names in the literature. Porter and Fuller (1986) talk of ‘international coalitions’, while Oliver (1990) dubs such

Cullen (2002) defined strategic alliances as partnerships between two or more firms which decide they can better pursue their mutual goals by combining their resources i.e. financial, managerial, technology, as well as their existing distinctive competitive advantages. Alliances often called cooperative strategies are transition mechanisms that propel the partners’ strategy forward in a turbulent environment faster than would be possible for each company alone. Alliances typically fall under one of three categories:

- Joint ventures – when two or more companies create an independent company.
- Equity strategic alliances – in which two or more partners have different relative ownership shares (equity percentages) in the new venture.
- Non equity strategic alliances – when agreements are carried out through contract rather than ownership sharing. Such contracts are often with a firm’s suppliers, distributors or manufacturers or they may be for purposes of marketing and information sharing such as with many airline partnerships.

There are three main types of strategic alliances (Lorange and Roos, 1992). These are informal international cooperative alliances, formal international cooperative alliances
and international joint ventures. Figure 3.2 outlines the major differences among the types.

**Figure 3.2 Types and Characteristics of International Strategic Alliances**

<table>
<thead>
<tr>
<th>Alliance Type</th>
<th>Degree of Involvement</th>
<th>Ease of Dissolution</th>
<th>Visibility to Competitors</th>
<th>Contract Required</th>
<th>Legal Entity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Informal International Cooperative Alliance</td>
<td>Usually limited in scope and time, a marriage of convenience</td>
<td>Easy at the convenience of either side</td>
<td>Often unknown to competitors</td>
<td>No</td>
<td>None</td>
</tr>
<tr>
<td>Formal International Cooperative Alliance</td>
<td>Deeper involvement requiring exchange of proprietary company knowledge and resources</td>
<td>More difficult to resolve prior to end of contract due to legal obligations and commitment of resources by companies</td>
<td>Often visible to competitors through announcements in business press but details can be secure.</td>
<td>Yes</td>
<td>None</td>
</tr>
<tr>
<td>International Joint Venture</td>
<td>Deep involvement requiring exchange of financial; proprietary company knowledge and managerial resources</td>
<td>Most difficult to resolve since companies invest significant resources and have ownership in a separate legal entity</td>
<td>High visibility since joint venture company is a separate legal entity</td>
<td>Yes</td>
<td>Yes, separate company</td>
</tr>
</tbody>
</table>

Source: Lorange and Roos, 1992

Global strategic alliances are working partnerships between companies often more than two across national boundaries and increasingly across industries. In the global airline industry, for example, global alliances have become a mainstay of competitive strategy. Alliances are also sometimes formed between a company and a foreign government or among companies and governments. The European Airbus Industry consortium comprises France’s Aerospatiale and Germany’s Daimler-Benz Aerospace each with 37.9 percent of the business; British Aerospace has 20 percent, and Spain’s Construcciones Aeronauticas has 4.2 percent (Mockler, 1999).
Alliances may comprise full global partnerships often joint ventures, in which two or more companies, while retaining their national identity, develop a common, long term strategy aimed at world leadership. The intent of the Daimler-Chrysler global partnership was to achieve these kinds of objectives, though by 2001 it had run into problems. Whereas such alliances have a broad agenda, others are formed for a narrow and specific function including production, marketing, research and development and financing (Mockler, 1999).

From the above it is apparent that there is a wide body of literature that considers the issue of what constitutes a strategic alliance. As seen in Figure 3.3, strategic alliances can vary along a broad continuum and it has been viewed by varying authorities from different perspectives and viewpoints. However, this thesis adopts the definition proposed by Hamilton et al. (1995; 1996) which defines a strategic alliance as: “A durable relationship established between two or more independent firms, involving the sharing or pooling of resources to create a mechanism (corporate or otherwise) for undertaking a business activity or activities of strategic importance to one or more of the partners for their mutual economic advantage”. The derived definition and its key variables reflect the nature of systems thinking which guides this thesis. Typically a strategic alliance will be the result of conscious intentionality of a proactive kind. Not only are strategic alliances typically proactive, they are also selective. There is a choice of partners, usually involving some consideration of at least some of the possible candidates for the role of alliance partner. What is more, any decision in principle to engage in a strategic alliance
represents a serious policy choice in favor of controlled cooperation rather than unbridled competition.

Again, the strategic alliance may have a formal substance, typically in documentary or contractual form. This documentation may specify objectives, priorities, any limitations on the scope of the alliance and may also include ‘divorce arrangements’, a means of terminating the alliance if it does not work out. In short, the strategic alliance is typically a conscious, intentional, proactive, selective act, in turn implying a choice on the cooperation/competition dimension. Its operating structure is often heavily relationship-dependent, yet this alliance may have a formalized, documentary basis. All these considerations render the alliance phenomenon an interesting case for exploring the issue of partner selection in business.
Figure 3.3 Types of Collaborative Relationships

Inter-enterprise Collaborative Relationships

Contractual
- Buy or sell and other contracts
- Licensing and franchising agreements
- Partnership contracts involving: R & D, Product development, Sourcing, Manufacturing, Marketing, Distribution

Equity
- Existing entity
  - Equity investments in joint venture and franchises
  - Equity Exchange
- New Entity
- Termination
  - Dissolution of entity
  - Mergers & Acquisitions

Non-subordinated joint venture
- Joint ventures with varying percentages of partner ownership

Consortia

Source: Adapted from Mockler (1999)
3.3 Economics Theories Relevant To the Phenomenon of Strategic Alliances

3.3.1 Background Theory

A consideration of the economic theories underlying strategic alliance formation logically starts with a review of the major ideas most commonly advanced as a basis for the development of this inter-organisational genre. The theories will contribute some of the material necessary to construct a viable understanding of the drive to alliance formation and management, and of alliance evolution. These theories are:

a) transaction cost analysis
b) international trade theory
c) resource-based theory of competitive advantage
d) resource dependency perspective
e) the learning organization
f) chaos theory
g) institutional theory

A discussion on culture, trust and institutional contacts will follow the major theories of alliance formation. Culture, trust and institutional contacts are often left out of the economic theory-based literature on strategy but these elements are of paramount importance when bringing together not only two or more corporate cultures, but also two or more national cultures as well. Cultural compatibility of whatever kind is also an important ingredient for fostering an environment of trust/bonding between alliance partners. The level of trust within an alliance will depend significantly on the cultures of the alliance and the alliance partners. Trust, as will be shown, also has an impact on
transaction costs. The result of the impact of culture and trust will be the ability of the alliance partners to bond and work together to reach their own goals.

3.3.2 Transaction Cost Analysis

Strategic alliance theory is most frequently based in the literature on the transaction cost model which claims that alliances are set up and survive when this alliance form of organisation represents the lowest level of transaction costs in comparison with other forms, notably fully integrated companies (hierarchies), or, at the other extreme, totally fragmented markets.

In Williamson’s schema (1975) the key driving forces towards hierarchy are that:

a) There are major economies of scale and scope;

b) The market is complex and uncertain;

c) Operating through the market gives rise to major risks of opportunism; and

d) Operating through the market gives rise to high risk of information loss.

He sees these key driving forces towards markets:

a) The efficiency of the market price mechanism is vital for resource allocation and optimal profitability;

b) Only the market system will stimulate entrepreneurship and motivation adequately;

c) Hierarchies lead to excessive bureaucratic disabilities; and

d) Hierarchies lead to excessive governance cost.
Strategic alliances, when viewed as a hybrid organizational form, have some of the characteristics of hierarchies and some of markets, with the following typical profile;

Their hierarchy characteristics may be:

a) Economies of scale and scope; and

b) Ability to deal with complex and uncertain markets, but there is a high risk of opportunism by one partner or the other, and a high risk of information loss.

Their market characteristics may be:

a) The degree of operation of the market price mechanism; and

b) Entrepreneurship and motivation, which are more commonly found in alliances than in large corporate hierarchies. But bureaucratic disabilities are often replaced by culture conflict and governance costs, that is, coordination costs remain potentially high.

From transaction cost analysis, it appears that the strategic alliance may be an “appropriate” organisational form in certain circumstances (which are not objective as they rely on the perception of the parties to identify, measure and priorities), notably if:

a) The situation seems to call for an organisation displaying characteristics of flexibility and the need for cooperation;

b) The alliance is judged to be the best way to gain access to certain necessary and specialised assets;

c) Neither party alone could market the end product as effectively;

d) The market is “thin”, making both partners very dependent on each other over an extended time scale;

e) The alliance form meets both partners risk profiles; and
f) Opportunities for realising scale/scope economies exist.

The alliance may involve the contribution of assets by one partner which are covered by scale economies, for example, their contribution network, and, in the absence of an alliance, the other partner would need to set up its own network or buy its partner’s whole business. The situation may involve the transfer of tacit knowledge or know-how which is most effectively done on a cooperative basis when overall goals are compatible, that is, in an alliance. In collaboration with third world partners, the alliance form is, it is suggested (Beamish, 1988; Yeung, 1997; Gray and Yan, 1997; Olson and Singsuwan, 1997; Li and Shenkar, 1997; Luo and Chen, 1997; Erden, 1997; Tallman, Sutcliffe and Antonian, 1997; Pearce and Branyiczki, 1997), often the best way to retain local motivation, bridge the organisational cultures, and meet local political needs. Most commonly, the alliance enables partners to limit risk, and gain access to assets they do not have but need.

In addition to the above specific conditions that may give rise to alliances, other conditions are those meeting the “balance of forces” argument, that is, in situations requiring some market characteristics, such as retention of motivation, entrepreneurship, and the price mechanism, and some hierarchy characteristics, for example, scale, scope, and learning economies. The balance of forces argument also requires the minimisation of relevant transaction costs, for example, opportunism or information leakage for markets, and bureaucratic disabilities for hierarchies. In the world of transaction cost
economics two primary forces are commonly believed to operate (Williamson, 1975; 1985); First, pressure towards equilibrium; and second, natural selection.

However, in actual as opposed to theoretical situations, these forces are frequently impeded in their operation by four inhibiting forces, namely: friction, immaturity, imperfections and time lags. Friction may occur in a market when institutional factors prevent immediate adjustment to changed circumstances. Immaturity occurs as new markets develop and, in their evolution, give rise to forms that may not survive in the longer term. Imperfections may occur in all markets save the genuinely uni-locational commodity form, and give rise to a variety of distortions. Time lags may incur costs and, at any one moment, make the precise nature of evolution unpredictable. Thus even if there are underlying forces towards the minimisation of transaction costs, the above inhibiting factors may well prevent the predicted least-cost form emerging. Both Williamson (1975) and Nelson and Winter (1982) retain the concept of “efficiency” in their writings as the key to organisational change, but Hannan and Freeman (1989) doubts its predominance, and believe that it rarely overrides institutional and political considerations. The pressure of “natural selection” and “efficiency”, then, do not necessarily operate smoothly or certainly in the real world. There may, therefore, be organisational forms that survive, even though they do not minimise transaction costs but achieve other desired ends.

Further weaknesses of the transaction cost model are that the relevant costs defy calculation. How for example, the cost of information impactedness, be calculated and
added to that of opportunism? Further, it is not a model necessarily known to the
decision-takers setting up alliances and cannot, therefore, as a model, motivate them. The
only argument overcoming these weaknesses, namely that forces will drive organisational
forms towards the most efficient ones through natural selection, is theoretically attractive
to the determinist, but difficult to demonstrate empirically. It is, however, advanced in a
sophisticated form by Ghosal and Nohria (1987) in their presentation of a congruence
approach to a contingency theory as applied to multinational enterprises of both an-
integrated and a federated or network form. They claim that structure will be
systematically differentiated so as to “fit” the different environmental and resource
contingencies faced by different organisational subunits. Under norms of rationality
(Thompson, 1967), organisations facing heterogeneous task environments seek to
identify homogeneous segments and establish structural units to deal with each. Perhaps
so, but the norm of rationality may be only fitfully observed.

The concept of transaction cost minimisation underlies Ouchi’s (1981) concept of clans
or uni-cultural strategic alliances, which are most appropriate when the cost of governing
behaviour by rules becomes prohibitive, and when a cooperative mechanism emerges as
an alternative, that is, where both parties to the transaction share a common goal or set of
values and loyalties. Strict clan mores, including trust, are important to avoid the need for
the governance rules of hierarchy. These elements of trust/bonding will emerge
importantly in the later part of this chapter.
The transaction cost model is a somewhat mechanistic one (Miner, 1980; Wood and Bandara, 1989; Donaldson, 1990; Griesinger, 1990). In fact, Griesinger’s (1990) use of the concept of the human motivation of “betterment” introduces a Theory Y (McGregor, 1960/1985) element to the predominantly Theory X emphasis of Williamson’s (1975) transaction cost schema.

As Coase, Robertson and Langlois and others have made clear, transaction cost analysis does not push for a minimisation of transaction costs, except on a ceteris paribus basis. Instead, the aim is to minimise total costs. Thus, if a firm is not able to produce something at a reasonable cost internally, it may be forced to buy it in the market despite substantial transaction costs because this gives the best total cost outcome. This, in turn, means that there is no inconsistency between transaction cost analyses and various resource based or capabilities approaches. The extent to which a firm can reasonably contemplate internalisation is dependent on its access to the resources and capabilities needed to do something itself. The relevance of transaction cost analysis does not hinge on whether the actors in the story were consciously aware of the existence of transaction costs under that name. Virtually all economic theory is a codification of behaviour that has been important for years, perhaps centuries, before economists got around to telling us what we have been doing. In relation to transaction costs, awareness of opportunism and uncertainty has been known for centuries and appropriate attempts have been made throughout the period to minimise their effects on market activity.
The transaction cost approach, however, sits uneasily alongside the resource dependency perspective as the two theories are based on contrasting views of the economic world. To the transaction cost economist, the “forces” driving towards efficiency will in a given set of environmental circumstances make the organisational form with the lowest transaction costs the surviving form. To the resource dependency perspective theorist, the world is fundamentally perceptual and socially enacted; thus, cooperation will come about from the perception of mutual advantage, of vulnerability and of the need to safeguard power. But the existence of transaction costs do provide economic “forces” that may, in the longer run, impel the enterprise towards the most efficient form and, to that extent, the concept will always have relevance; the transaction cost model provides a useful set of concepts against which to assess organisational form, even though it may rarely be a motivating force since few practitioners may be explicitly aware of it.

3.3.3 International Trade Theory

This thesis is concerned with cross-border strategic alliances, as it turns out, chiefly European-Pacific Rim, with their nature and underlying rationale. It is necessary, therefore, to attempt to understand why an organisation from one country would seek competitive advantage by collaborating with an organisation from another country. Dunning (1974) proposes the basic reasons why multi-national corporations are able to achieve competitive and comparative advantage in his “eclectic approach”. This approach has three conditions attached to it:
a) ownership - that the organisation should possess ownership advantages in particular markets, whether due to brand names, technology or some other intangible asset;

b) internalisation – that it believes it is advantageous to internalise its specific assets, that is, not to license for fear of information leakage; and

c) localisation – that there is at least one immobile foreign-factor input that is of advantage, for example, low labour costs.

The locational factor appears to be key or integral, since otherwise the organisation would elect to export from its more familiar and already tested home base. If the internalisation condition is weakened, the opportunity for strategic alliances emerges. The theory of foreign direct investment, and of alternative organisational forms to develop business across frontiers, is set out effectively by Rugman (1985) who develops a logical decision-tree for choosing between the various alternatives.

Porter and Fuller (1986) argue that the way for an organisation without eclectic advantages to succeed in international trade is, with a partner, so to configure and coordinate the joint value chain that it thereby gains competitive and comparative advantage. Bartlett (1979; 1986) and Bartlett and Ghoshal (1989) suggest, in the form of the “Transnational” enterprise, a modern form for the MNC quite similar to that of the strategic alliance. Bartlett and Ghoshal (1989) argue that managers are being forced to shift their thinking from the traditional task of controlling a hierarchy to managing a network. This idea of shifting forms emerges from the international structural stages
model associated with Stopford (1980) and Stopford and Wells (1972). The model is graphically illustrated in Figure 3.4 below. The model suggests that the first step towards the internationalisation of a company is to set up an international division.

**Figure 3.4 International Structural Stages Model**

Subsequently, if organisations expand their sales without substantially increasing their range of products, they may adopt a geographically based area structure. If they experience a substantial increase in foreign product diversity, however, they may take the worldwide product division route. Ultimately, when both foreign sales and foreign product diversity are high, they may adopt a global matrix structure, but experience has
shown this form to be extremely difficult to operate smoothly. The evolution of the trans-
national concept represents an attempt to solve the matrix problem by a change of
philosophy.

In order to depict a broad trend in internationalisation of the corporate scene it is useful to
employ Bartlett and Ghoshal’s (1989) fairly lean characterisation of this scene. Crainer’s
(1996:223-224) characterisations which are richer and more helpful in the development
of the thesis argument, will form the background for the later argument.

Bartlett and Ghoshal (1989) claimed that, until the 1980s, the world economy had
exhibited a mixture of “multinational”, “international” and “global” companies. They
define these terms as follows. “Multinational” companies were federations of subsidiaries
with a holding company centre, with each subsidiary marketing product to suit the
domestic markets in which it operated. This was, according to Bartlett and Ghoshal
(1989), the dominant model in the pre-Second World War period. The “international”
company structure became more common after this war. The primary task of
international companies was to transfer knowledge and expertise to overseas
environments. Local subsidiaries were more dependent on the “centre” than in the
multinational model but there was some local adaptation. The classical “global”
organisation model was one of the earliest internationalised corporate forms. It built
global-scale facilities to produce standard products and shipped them world-wide. It was
based on the centralisation of assets, with overseas operations used to achieve global
scale.
A new form is now emerging, Bartlett and Ghoshal (1989) contend, which they describe as the “transnational”. The transnational is characterised by the fact that it is a truly world-wide enterprise, neither owned in one country, nor controlled from one unified corporate headquarters. To operate effectively it needs to control three distinct flows:

a) the flow of parts, components and goods;

b) the flow of funds, skills, and scarce resources; and

c) the flow of intelligence, ideas, and knowledge leading to innovation.

Increasingly, the management of complexity, diversity, and change is the central issue facing all companies. Figure 3.5, on the following page illustrates the position of the transnational. Formal organisation charts reflect only one aspect of the “cement” that binds the organisation together. It is, of course, held together more strongly by the managerial decision making process which depends on the information flows. Bartlett and Ghoshal (1989) believe it is not a new organisational form that is needed to meet the needs of the future but a new philosophy that will achieve global competitive advantage, local differentiation and global learning by transforming the “anatomy”, “physiology” and the “psychology” of the global enterprise.

The transnational is a newer and more sophisticated concept than earlier organisational forms for the international enterprise. With its emphasis on a network philosophy and the absence of domination by a home-country based head office, the philosophy can embrace equally well the enterprise based on a network of alliances as it can the integrated corporation. Bartlett and Ghoshal’s (1989) transnational concept can be seen, for
example, in Fujitsu’s approach to the development of the global Fujitsu “family” of companies.

**Figure 3.5 Transnational Corporation Model**

![Transnational Corporation Model Diagram]

Source: Bartlett and Ghoshal (1989)

Interestingly, a similar philosophy is emerging amongst strategic theorists in Japan. Nonaka (1989) sees information as the key to success. Information is of two types – syntactic, that is, bare data, and semantic, that is, information with concepts and meaning. Meaning creation (semantic information) is an inductive process, and to have a good chance of success needs to have considerably redundancy of information. Deductive
management (syntactic information) needs no redundancy of information, but it is basically uncreative.

Nonaka (1989) calls this “compressive management”, an interesting echo of Ansoff and McDonnell’s (1990) “accordion” management, similarly devised to deal with the uncertainties of the modern turbulent environment. This process can also lead quite acceptably to hybridisation of the company’s headquarters, with perhaps one headquarters in Japan, another in the USA, and perhaps a third in Europe. As Contractor and Lorange (1988:26) point out:

*One model of the multinational corporation sees it as a closed internalized administrative system that straddles national boundaries. An alternative paradigm proposed in this chapter is to view the international firm as a member of various open and shifting coalitions, each with a specific strategic purpose.*

There is considerable congruity between the philosophical standpoints of Contractor and Lorange (1988), Bartlett and Ghoshal (1989), and of Nonaka (1989) in their rejection of the rigid hierarchy of the traditional MNC, strongly controlled from its home base, even allowing for local product variation. A world of sometimes shifting but continually renewing strategic alliances and even more informal networks fits well within this approach.

### 3.3.4 The Resource-Based Theory of Competitive Advantage

Any theory of international trade must be based on a coherent theory of competition. Theories of competition have evolved from a number of distinct strands of economic theory (Barney, 1986), amongst which the more prominent are:
1. The Theory of Industrial Organisation Economics which developed out of classical micro-economic theory (Scherer, 1980). This is fundamentally structural and determinist, arguing that the performance of a company within an industry is strongly constrained by the structure and basic conditions of the market. Little independent role is attributed to management, entrepreneurship or strategic choice. Industrial Organisational theory has been incorporated in strategic management theory, principally through the work of Caves and Porter (1977), Caves (1980) and Porter (1981, 1985). In this thesis, the basic tenets of Industrial Organisation Economics are accepted as a limiting factor in establishing the relative profitability of various markets, but not as a major profit determining force.

2. Chamberlinian Economics, as set out in the Theory of Monopolistic Competition (Chamberlain, 1938/1965) takes a quite different approach, substantially ignoring industry structure, and regarding the differentiation of the product, and organisation-to-organisation differences, as the prime source of competitive advantage. Where such differentiation exists, even though it be slight, buyers will be paired with sellers, not by chance and at random (as under pure competition) but according to their preference. In conditions of monopolistic competition, as Chamberlin (1938/1965) describes it, each organisation strives to exploit its unique competencies and strengths. This leads on to the modern concept of the resource-based theory of the organisation (Hamel, 1990;1991; Grant, 1991).
3. The Schumpeterian Economic Contribution is different again. Schumpeter emphasises change and discontinuous change in particular. Far from seeing organisations as identical, technology growth as coefficient and the pressure towards equilibrium as ever present, Schumpeter (1950:83) claims that; “The process of Creative Destruction is the essential fact about capitalism. It is what capitalism consists in and what every capitalist concern has got to live in.”

For Schumpeter, the entrepreneur and innovation are the driving forces of capitalism (Barney, 1986). The theory of “creative destruction”, and the discontinuous nature of economic development, presages much later Chaos Theory (Gleick, 1987; Stacey, 1991), with the latter’s emphasis on the impossibility of usefully forecasting economic development through methods of trend extrapolation, although the bounded instability concept in chaos theory is not explicitly present in Schumpeter.

However, all three strands of competition theory are relevant to the search for sustainable competitive advantage. Barney (1986:798) pointed out:

...most firms, at any given point in time, face both IO and Chamberlinian competition and live under the constant threat of either Schumpeterian shocks or revolutions. Moreover, the impact of previous Schumpeterian revolutions on an industry’s current structure can be profound.

Sustainable competitive advantage itself is a factor that cannot be measured, only inferred from the measurement of other trends like profit, market share and sales turnover. It is nonetheless, the holy grails which all organisations seek to find and to keep. Coyne (1986) identified it as stemming from:
a) customer’s perception of a consistent superiority of the attributes of one organisation’s products over its competitors, this being due to a capability gap;

b) the capability gap being durable over time; and

c) the superiority being difficult to imitate.

It is suggested by this writer that it is this configuration of knowledge, skills, core competencies and superior products that strategic alliances seek to achieve, where the partners believe that they cannot achieve it alone.

Strategic alliances come in a variety of forms but are normally, at least implicitly, founded on the resource-based theory of competitive advantage. This theory (Grant 1991) holds that competitive advantage is most productively sought by an examination of an organisation’s existing resources and core competencies, an assessment of their profit potential, and the selection of strategies based upon the possibilities this reveals. Amit and Schoemaker (1993) describe the process as relating an organisation’s unique “strategic assets” to key “strategic industry factors”, or, as Snyder and Ebeling (1992:26) put it:

...the firm is a system of activities, not a portfolio of individual products or services. Some activities are performed so much better than the competition and are so critical to end products or services that they can be described as core competencies. When a series of activities are organised into a system that works better than the sum of its parts, this business process can also create competitive advantage, even if component activities by themselves do not.

The task is, then, to assess the current core competencies the organisation has and fill whatever resources or competencies gap is thrown up by the inventory taking of existing resources and competencies, in relation to the perceived potential profit opportunities.
This is where strategic alliances come in. They are a way of extending resources and capabilities, hence core competencies, in order to develop sustainable competitive advantage.

Most strategists would concede, no doubt, that insight into strategy options can only be perceived by an examination of both the external environment and the internal strengths of the organisation. However, it is suggested that the emphasis placed upon the sequence in which this exercise is carried out is of some importance. Throughout the eighties, strongly influenced by Porter’s (1980) views which involve a sophistication and development of the Structure-Conduct-Performance paradigm from the Industrial Organisation tradition, the strategic process has been most commonly described as being to:

a) analyse the industrial environment for opportunities;

b) assess internal capacity to take advantage of them;

c) identify, evaluate and select the appropriate strategies; and

d) implement the chosen strategy.

The thinking behind this process is that the attractiveness of the industry is the prime determinant of profitability. However, as can be seen from the Profit Impact of Market Strategy (PIMS) data (Buzzell and Gale, 1987), variation of profit levels in organisations within industries is at least as great as that between industries. Furthermore, there is the undoubted long-term profit record of the Hanson Group and others (Porter, 1986), the fundamental strategy underlying which frequently involves investing in apparently
unattractive industries but aiming to run companies efficiently, which casts further doubt on this emphasis. The PIMS approach can also lead an organisation that believes it has identified an attractive opportunity to embark on an investment in that opportunity area, without paying sufficient attention to the question of whether the supposed opportunity actually builds upon its existing core competencies.

The resource-based theory of competitive advantage would deflect an organization from investing in an enterprise that was not strongly related to its core competencies. Only strategies based upon existing core competencies could, it would hold, lead to the acquisition and maintenance of sustainable competitive advantage. Snow and Hrebiniak (1980) found that organizations concentrating on a distinctive competence, consistent with their chosen strategy, regularly outperformed competitors. The resource-based approach emphasises the sustainability of organization heterogeneity, and highlights imperfections in factor markets: “The exclusive focus on equilibrium and structural dimensions is absent. Instead disequilibrium and process dynamics loom primary (Amit and Schoemaker, 1993:42).”

If the opportunity requires certain competencies in addition to those already present within the organization, a strategic alliance with a partner with complementary skills and resources may represent a low risk way of overcoming that deficiency.
3.3.5 The Resource Dependency Perspective

A strong motivation for setting up alliances can be found in the Resource Dependency Perspective (RDP). This theory (Pfeffer and Salancik, 1978) proposes that the key to organizational survival is the ability to acquire and maintain resources. Thus, in the last resort, it is organizational power and the capacity of the organization to preserve itself, that determines competitive success, not merely organisational efficiency as proposed, inter alia, by the Transaction Cost approach. Thus, the unit of analysis for the RDP is the organization-environment relationship, not the individual transaction. Problems arise not merely because organizations are dependent on their environment, but because the environment is not dependable.

To deal with this uncertainty, organizations attempt to manage their environment by cooperating with key parts of it, for example, by forming alliances. An RDP approach treats the environment as a source of scarce resources and therefore views the organization as dependent on other organizations also in the environment. The resource dependency theory stems from the much earlier theory of social exchange which holds that, where organizations have similar objectives but different kinds or different combinations of resources at their disposal, it will often be mutually beneficial to the organizations in the pursuit of their goals to exchange resources (Levine and White, 1961; Litwak and Hylton, 1962).

Thompson (1967) suggests that organizations seek to reduce uncertainty and inter alia enter into exchange relationships to achieve negotiated and more predictable
environment. Sources of uncertainty include scarcity of resources, lack of knowledge of how the environment will fluctuate of the available exchange partners and of the costs of transacting with them (Achrol and Stem, 1988).

The degree of an organization’s dependence is a function of the critical nature of the resources to the parties involved in the exchange, and of the number of and ease of access to alternative sources of supply. Where few alternatives exist and the resources are essential, a state of dependency exists (Jacobs, 1974). This creates a power differential between trading partners and the dependent organization faces the problem of how to manage its resources with the concomitant loss of independence, since unchecked resource dependence leads to a state of strategic vulnerability.

Such strategic vulnerability can be tackled in a number of ways. Western organizations may do it, for example, by multiple sourcing of materials and components, internal restructuring, merger or acquisition; Japanese ones, by the establishment of semi-captive suppliers within keiretsu groups. The establishment of a strategic alliance can thus be regarded as an attempt by organizations to reduce strategic vulnerability, and hence to overcome perceived constraints on their autonomy in choosing their strategic direction.

There are, in Thompson’s view (1967), two basic forms of external constraint imposed by the environment, which affect the organization’s available resources:

a) competitive constraints, where organisations live off the same resource pool. This is a zero sum game and alliances seeking to reduce this form of dependency can do so only at the expense of other competitors; and
b) symbiotic situations, where the output from one factor is the input for another, for example, buyer/supplier relationships. In symbiotic relationships the level of institutional linkages is likely to be directly correlated with the level of transactions between factors.

However, such an analysis is essentially static and ignores the fact that two partners exchanging resources and skills may realise synergies in a dynamic dimension. Strategic alliances can be seen as attempts by organizations to establish a negotiated environment, and thus to reduce uncertainty. On the basis of this argument, alliances will occur most often when the level of competitive uncertainty is greatest, since the level of competitive uncertainty is positively correlated with efforts to manage that uncertainty.

In RDP motivated alliances both parties typically strive to form relationships with partners with whom a balance of desired resources can be achieved at minimum cost, and with a desirable level of satisfaction and determinacy, and thus, whenever possible, with similar sized organizations. This approach is echoed by Kotter (1979:89) in what he calls the external dependence perspective, thus:

"Organizations cope (inter alia) with external dependence by establishing favourable relationships with those they are dependent upon and with alternative sources in their domain."

Kotter (1979:89) goes on to state that one way of doing this is by means of “joint ventures and other complex coalitions with other organizations.”
The central questions addressed by the resource base view concern why firms differ and how they achieve and sustain competitive advantage. Penrose (1959) argued that heterogenous capabilities give each firm its unique character and are the essence of competitive advantage. Wernerfelt (1984) suggested that evaluating firms in terms of their resources could lead to insights different from the traditional industrial/organization perspective (Porter, 1980). Barney (1986) suggested that strategic resource factors differ in their tradability and that these factors can be specifically identified and their monetary value determined via a strategic factor market. Barney (1991) later established four criteria to more fully explicate the idea of strategic tradability. He suggested that firm resources and capabilities could be differentiated on the basis of value, rareness, inimitability and substitutability.

Resources are based in a context and depending on characteristics of that context a focus on resources could create strategic inflexibility and core rigidities for a firm that would lead to negative returns (Leonard-Barton, 1992). Oliver (1997) analysed the issue of a firm’s sustainable advantage in terms of resources based and institutional factors and suggested that firms are able to create or develop institutional capital to enhance optimal use of resources. Firms therefore have to manage the social context of their resources and capabilities in order to generate rents.

Little research using a resource based view framework has examined strategy differences in the social context of emerging economies. Like most resources that create competitive advantage, resources for competitive advantage in emerging economies are on the whole
intangible. However, they are not necessarily product market based, as would be suggested by the knowledge based view of the firm (Conner & Prahalad, 1996). Although some capabilities are standard across all economies (for instance, first mover advantages), others are especially prominent in emerging economies. Multinational enterprises often focus on the revenue generating potential of emerging economies. Accordingly, multinational enterprises have focused on the marketing challenge of creating and capturing the huge latent value associated with big emerging economies such as China, India and Russia. Firms that are able to manage the daunting circumstances in emerging economies reap the benefits of first mover advantages; these include being the first participants in new product markets, reputation effects and the economic advantages of sales volume and of preemptive domination of distribution and communication channels.

In emerging economies, however such advantages are difficult to establish without good relationships with home governments. Early relationships give tangible benefits, such as access to licenses, whose number is often limited by a government. Diversified business groups have evolved in many emerging economies. Such groups often obtain licensing advantages because of their government relationships. As institutions change, business groups, which have dominated emerging economies, will have less and less advantage relative to competitors, both domestic and foreign, that wish to enter and exit a market. Khanna and Palepu (1999) suggested that business groups need to take particular care in restructuring once institutional changes take place that reduce the frictions and
asymmetries mentioned above. More freedom and decentralization for business units need to be initiated.

In emerging economies, local competitors may have developed capabilities for relationship based management in their environment that substitute for the lack of institutional infrastructure. These assets may be used domestically or in transferring abroad to other emerging economies where such assets would likewise be useful. Developing distribution mechanisms may protect a domestic firm in an emerging economy against entry by foreign firms. Furthermore, focusing on a market that has not yet globalised might allow a domestic firm in an emerging economy to dodge the onslaught of multinational rivals. Additionally, competing in a global market may be possible in a commodity area where natural resources or labour give a low cost advantage (Aulakh, Kotabe & Teegen, 2000). In essence, a firm must understand the relationship between its company assets and the changing nature of the institutional infrastructure as well as the characteristics of its industry. In so doing, the emerging economy firm may be able to become an aggressive contender domestically or globally by using its resources as sources of competitive advantage (Dewar & Frost, 1999).

3.3.6 Corporate Learning

This thesis puts forward the contention that strategic alliances are most frequently formed from resource dependency motives, and that the ability of the partners to achieve and sustain competitive advantage in their chosen market is strongly influenced by the degree to which they place corporate learning as a high priority on their alliance agenda, and
seek to cause the alliance to evolve in a direction based on that learning. Kogut (1988) suggests a joint venture is used for the transfer of organisationally embedded knowledge that cannot be easily blueprinted or packaged through licensing or market transactions.

In a sense, corporate learning can be seen as the dynamic counterpart to the resource dependency theory of the organization. Thus, an organization will diagnose its resource and skill deficiencies in relation to a particular external challenge, and through the process of deliberate and planned corporate learning set about remedying its weaknesses.

The concept of unique ‘know how’ that is contributed and sought by partners in alliances is contained within Reed and Defillipi’s (1990) concept of “causal ambiguity”. Causal ambiguity attempts to capture the difficulty in linking action and result, which is exemplified in the fact that some organizations are able to achieve outcomes that other organizations try and fail to replicate, although endowed with apparently similar skills and resources.

As Roos and von Krogh (1992) emphasise, strategic alliances should be competence driven, that is, explicitly adding to either the task or the knowledge system or to the organizational memory of each partner. The idea of the organization as a residuary for learning is a popular one. Decision theory emphasises the importance of the search for information to enable organizations to make informed choices. Hamel (1990; 1991) stresses the role of learning as a source of competitive advantage through the

Corporate learning may be regarded as having two fundamental dimensions in the literature:

a) individual learning (Argyris, 1964); and
b) organizational learning (Johnson, 1987)

Individual learning may be rational or intuitional. Howsoever achieved, individual learning adds to the competencies of the organization but is in theory easily appropriated as when the individual with the developed competence is attracted into leaving the organization. Organizational learning develops at a level beyond that of the individual, and becomes embedded in the rituals, routines and systems of an organization in its culture. As such it is more deeply rooted in its core competencies and may therefore survive the tenure of individuals. Corporate organizational learning may be construed as consisting of both types described above.

The ease with which learning takes place within an alliance depends upon first, the type of learning and, second, the relationship between the nature of the learning and the condition of the would-be receptor. Many alliances are formed ostensibly for short term gains or to deal with temporary situations. These obscure the nature of the true strategic alliance, in which the intent is a learning one – the enhancement of joint sustainable competitive advantage as the extension of individual and joint core competencies – and in
which long term mutual benefit is supported by trust/bonding, commitment and a willingness to be flexible and robust in dealing with the tensions inherent in the partnership.

The key learning dimensions (see Senge, 1990; 1992; de Geus, 1997) of intent, receptivity and transparency, when associated with the different types of learning – namely, technology, process, opportunity and the learning philosophy – lead to an extremely varied learning situation, alliance by alliance. For the greatest benefit to be achieved by an alliance partner, the key learning dimensions need to be present in large measure. In all alliances, opportunity learning, for example, who are the best distributors? – can be identified and achieved, and, with effort, technology learning also. Process learning, and the highest form of learning, the learning philosophy, takes longer to achieve, and normally require a culture change before they are permanently embedded. Continuous learning and flexibility to meet changing challenges may well be characteristics that are found together in dynamic alliances.

Global competition requires a simultaneous need for global-scale efficiencies, worldwide learning and local responsiveness. A single firm is unlikely to possess all the resourced and strategic capabilities to achieve global competitiveness. Thus, strategic alliances are formed to acquire the desired strategic capabilities more rapidly (Nohria, Garcia Pont, 1991).
In the context of strategic alliances that involve competitive collaboration, the competitive advantage of a firm can be protected only through its capability to accumulate invisible assets by a carefully planned and executed process of organizational learning. Despite the potential advantages of collaboration, a further argument stresses that collaboration may create favourable conditions for inter partner learning and thus may allow one partner to appropriate and internalize resources that another partner contributed (Balakrishnan, Koza, 1993; Nakamura et al., 1996; Lane, Lubatkin 1998; Kumar, Nti, 1998). Such appropriation is a particularly critical issue when alliances associate competing firms. When the partner firms in an alliance are also competitors in a product market, there will be many opportunities for inter partner learning and major competitive consequences of such learning (Pucik, 1998; Hamel, Doz and Prahalad, 1989; Hamel, 1991). Alliances between competitors can lead to the loss of critical proprietary knowledge, to increased dependence of one partner vis a vis the other and even to the takeover of one partner by the other (Bleeke and Ernst, 1995).

Research on inter organizational learning (Argyris and Schon, 1978; Fiol and Lyles, 1985; Dosi, 1988; Moingeon and Edmondson, 1996) has shown that firms are better able to acquire new capabilities when they already have a competence base that is similar to the new knowledge that they seek. Cohen and Levinthal (1990) use the term absorptive capacity to express this idea. In this view, firms are more likely to graft a new skill successfully to a closely related competence base. Firms operating in the same business typically share a common competence base because they use similar technologies, satisfy similar customer needs, serve similar customers and offer related products. Building on
this idea, Lane and Lubatkin (1998) argue that firms which share similar concerns and face similar problems, and therefore have similar dominant logics (Prahalad and Bettis, 1986; Bettis and Prahalad, 1995), can more easily learn from one another. Competing firms, because they operate in a similar context, often confront similar issues and hence develop overlapping dominant logics. Therefore, alliances between competitors are likely to create a context that favours inter partner learning (Hamel, 1991). Park and Russo (1996; 878) argue that the potential for appropriately in a joint venture setting clearly is higher when the partners are direct competitors and present empirical evidence that supports elements of this argument.

Although they operate in a similar context, firms that compete in the same industry are also likely to possess specific, idiosyncratic skills and capabilities (Nelson and Winter, 1982; Nelson, 1991; Rumelt, Schendel and Teece, 1991). Differences in the resource endowments of factors such as technologies, engineering and production capabilities, products and market presence create the potential for firms to combine complementary assets, through alliances in order to pursue new business opportunities. In addition, firms with complementary resource endowments potentially have significant opportunities to learn from one another. Despite the organizational safeguards that firms often set up to limit uncontrolled information disclosure (Bresser, 1988), firms can use the alliance as a means of acquiring new resources from their partner in those areas where they have deficiencies. If collaboration is to be a mechanism by which firms acquire such resources, then not only do the partners’ resource endowments need to differ, but the firms must also make different contributions to the joint endeavour.
Crossan and Inkpen (1995) argue that the ability to extract knowledge and skills through alliances may become vital to survival. Osland and Yaprak (1995), state that developing strategic alliances to learn from a partner can be a faster and more effective method of acquiring specific knowledge. Learning is becoming a focal tool for future competitiveness in strategic relationship (Bronder, C and Pritzl, R, 1991). Bronder and Pritzl (1991) developed a model for successful strategic alliances and in this model they sensitized important issues for successful strategic alliances. The model consists of four phases and in the final phase they address “learning” as a contributor to the prosperity of alliances. Learning facilitates the partner’s motivation in achieving the objectives of the alliance relationship. Through mutual learning in a cooperative environment, partners of strategic relationships will benefit from shared knowledge, information and resources.

3.3.6.1 Role of Organizational learning

According to Luthans et al (1995), in order to survive in increasingly complex and dynamic environments, organizations need to do more than just adapt. They propose that the future success of organizations lies in the ability to learn and create knowledge. This notion is further enhanced by the comments made by Luthans et al (1995) who state that the reasons for the failure of some organizations and the success of others are obviously complex. However, there is little doubt that in a global economy characterised by anybody, anywhere, anytime and anyhow, that to succeed and even to survive in the long run, organizations must be able to learn. They can no longer just react to change they must anticipate change.
The concept of the learning organization and organizational learning has been described and influenced by the work of a number of writers. Learning can be seen as a process of gaining new knowledge or insight, leading to individuals modifying their behaviour and actions. Garvin (1993) views a learning organization as an organization skilled at creating, acquiring and transferring knowledge and modifying its behaviour to reflect new knowledge and insights. Learning develops the insights, knowledge and associations between past actions, the effectiveness of those actions and future actions (Fiol and Lyles, 1985). It is the intelligence of organizations that will produce a sustainable competitive advantage (Prahalad and Hamel, 1990). In the foreign entry literature, advocates of the internationalization process school, or the Uppsala stage model (Johanson and Vahlne, 1977), have argued that firms expand slowly from their domestic bases into progressively distant areas. Experiential learning from previous entries is the driving force behind new investments (Barkema, Bell and Pennings, 1996; Davidson, 1983).

3.3.6.2 **Importance of learning in strategic alliances**

Cooperation in strategic alliances encourages a reflective learning environment which provides benefits through the mutual transfer of knowledge and perhaps transaction cost minimization. However, despite the synergy that these relationships endure, there may also be some complications relating to the individual competences of the involved organization. Lei and Slocum (1991) highlight a problem associated with this relationship and suggest that the biggest cost and risks associated with the shared value adding
venture are that partner can lose their sources of competitive advantage to their partners very rapidly if they are not careful.

To avoid this barrier of cooperative alliances, the structure should include a learning framework that enables alliance partners openly to reflect their knowledge and information while retaining the visions for the alliances as well as their individual firms. This mechanism should be integrated into the relationship to allow all parties to benefit from shared knowledge.

Strategic alliances are constructed in order to effectively transfer knowledge, skills and resources. This entire process relies on a learning mechanism to complete the cycle. So much so, that the relationship is actually a learning process. Without understanding the impact learning can have, the benefit of transferring and receiving effective and accurate information is limited. The environment of these relationships is summarized by Senge (1992) who describes a learning organization to be where people continually expand their capacity to create the results they truly desire, where new and expansive patterns of thinking are nurtured, where collective aspiration is set free and where people are continually learning how to learn together. The definition addresses issues such as cooperation and shared learning which are important to learning alliance relationships. Crossan and Inkpen (1995) emphasize that the ability to extract knowledge and skills through alliances may become vital to survival. Doing so will require organizations to take a more serious look at their capacity to learn.
Creating a learning alliance assists in overcoming the dilemma described above because partners are aware of the importance learning plays in the relationship. The type of learning that is encouraged in these relationships is aimed at creating a cooperative environment that encourages the sharing of information and experiences to enhance the knowledge of individuals and the organization.

3.3.7 Chaos Theory

Chaos theory attempts to explain apparent disorder in a very ordered way. The root of the theory states that things are not really random, just complex. Many apparently random events can be represented by a simple computation that, when iterated many times, produces complex results (Wheatley, 1999). Generally a meteorologist named Edward Lorenz is given credit for identifying the phenomenon we now refer to as chaos. In short, Lorenz’s chaos theory postulates that a sensitive dependence on initial conditions is present so that a small change in the initial conditions can drastically change the long term behaviour of a system (Doherty and Delener, 2001).

The theoretical model of this thesis is now building into one involving partners with felt resource dependencies building their skills to achieve joint competitive advantage through joint and individual organisational learning. The next issue concerns the predictability of the external environment. If analysed with sufficient care, can its future be discerned, given that, inter alia, the perception of weak signals may be problematic (Ansoff and McDonnell, 1990), and will the development of the alliance be on a path inexorably moving towards the production of commodity products at a state of stable

The application of chaos theory to the international business world stems from a growing unease with the capacity of the economist’s stable equilibrium theory to describe the real world sufficiently effectively to be useful for prescriptive purposes. The dominant economic, and by importation, strategic management paradigm is of stable equilibrium. It is approached through an analytical process in which the organization adapts to its environment to achieve a chosen goal. In the strategic management paradigm, this leads to success by the attainment of that goal through the achievement of sustainable competitive advantage. In the economic paradigm, the forces driving towards equilibrium and the commoditisation of product tend to destroy that competitive advantage over time as new entrants come into the market, copy and improve, and steal it away. The vision is presented within a static framework of analysis, at best with a series of analytical pictures taken in the present, and forecast chosen times in the future. However, this economic paradigm and method leads to difficulties. In particular, stable equilibrium organizations tend to ossify and ultimately fail from lack of imagination, and from belief in the everlasting potency of their methods, technologies and products (Mintzberg, 1989; Miller, 1990; and Pascale, 1990). Decision takers generally embrace the concept of equilibrium because it reduces uncertainty, promotes the belief that economic questions have long term answers and reduces angst. However, as Stacey (1991) points out, in reality the environment is constantly changing, and contains too many variables to be predictable in anything more than the very short term.
The strategic planning process, with its sequential steps of industry environment, competitor and internal analysis, is unlikely to be successful, even if rigorously applied at regular periodic intervals. It does not promote imaginative solutions, and the state of the analytic data is almost certain to have changed considerably between periodic plan developments. A more robust model replaces “The Planning System” with the “Planning Agenda” (Stacey, 1992b; 1992c), and the Stable Equilibrium Organization with the far more flexible Learning Organization. Analysis seeks to recognise patterns of activity rather than causality. Chaos theory identifies three distinct states of activity within an environment, which includes the organization as part of it rather than distinctly apart:

a) stable;

b) unstable; and

c) boundedly unstable (Gleick, 1987)

Stable activity is brought about by negative feedback to a stimulus which causes damping and a move back to equilibrium. This activity is uncreative, and describes an organization unprepared to respond to major environmental change, like a steep shift in technology or of tastes. Unstable activity demonstrates over reaction to change and leads to amplified activity. The underlying instability of the organization leads to failure from lack of a base capable of dealing efficiently with routine activities. Between the extremes of the unimaginative and the excessively unstable lies a border area of bounded instability that can be managed creatively. An organization operating in such an area needs to be adapted to the routine environment, but also to be capable of displaying imagination; this is the learning organization (Gleick, 1987; Senge, 1990; 1992; Stacey, 1991; 1992b; 1992c).
In Stacey’s (1991) terms, to be creative one need to operate at the borders of stability and instability, and to recognise not causality but patterns of activity that recur and if understood, that can lead to insights. Those that succeed in chaos will be those who see patterns where others search for specific links between causes and events.

This theory, taken from the world of natural science, is intuitively attractive when translated to the realm of social science. It also provides a logical development of the insights of the Schumpeter competitive model of the 1930s in which capitalism is developed through irregular periods of “creative destruction” where existing technologies and products become suddenly obsolete, and are replaced with new and better ones perceived to meet market needs. In the 1930s, Schumpeter stressed that an organization must practise creative destruction on itself to sustain competitive advantage. It must destroy its old advantages by creating new ones and, if it does not, some rival may well do so (Stacey, 1992a; 1992b; 1992c).

Research has established and repeatedly shown a positive link between variables such as network visibility, predictability, and consistency and overall strategic alliance performance levels. The importance of strategic alliances and coordination among partners are well documented factors of strategic alliances performance (Wagner et al. 2002). However, achieving strategic alliance coordination among partners is difficult when dealing with networks encompassing various facilities, organizations, and managers with different, oftentimes conflicting objectives (Bowersox et al. 2000).
Reviewing several aspects of a strategic alliance partner selection, it is easy to see how a chaotic system could become commonplace. For example, when selecting a partner, each partner interprets key variables of importance to them and makes a decision. The complexity begins with the difficulty associated with understanding and predicting the decision making process of each partner. However, forecasting and planning becomes exponentially more complex when the behaviours of potential alliance partners, each with a unique decision set, are aggregated together. This is a complicated and challenging paradox currently facing strategic alliance managers. Chaos theory underscores the importance of establishing strategic alliances between partners. Without a coordinated effort both within an organization and between organizations, a small adjustment made in the strategic alliance network may have dramatic consequences for other strategic alliance participants throughout the network. Not only is alliance relationship type behaviour paramount to strategic alliance success, when adjustments are required, effective, immediate, and comprehensive communication of the changes are highly critical.

The concept of chaos theory may also help to explain why a strategic alliance that has been performing at a high level for a significant period of time can become chaotic under new market conditions. Therefore, strategic alliance managers in these organizations must realise the challenges created by constant variation in the marketplace and structure their strategic alliances accordingly. The successful organization, then, needs to live with the tension created by pursuing an innovative strategic agenda of constant learning and change whilst continuing to pursue the existing business efficiently. The organization
needs, therefore, to be flexible, but also to have efficient systems. It is perhaps these primary requirements that make the strategic alliance such a popular current organizational form for, to be successful, it must be both flexible and stable. With its head controlled by two or more strategic partners, it cannot easily lapse into complacency and closed-mindedness and, with diverse cultures to balance within it, when successful it is constantly handling the problems of complex learning and adaptation. Perhaps the safest way to use chaos theory in strategic alliance is not in the instigation of organizational change, but in the use of its principles in dealing with issues that arise within the organization. By embracing organizational phenomena previously seen as dysfunctional, such as interpersonal conflict, and using it as a source for transformational change by applying principles found in chaos theory (Shelton, 2003), an organization can become more responsive to change agents while continuously moving ahead and growing from the inside out without the fear of complete chaos.

3.3.8 Culture, Strategy and Alliances

When an organization seeks to enter a new market or to supply a current one it may seek a foreign partner to form an alliance. The formation and operation of alliances offer several possibilities for the interaction of strategy and culture. First, companies from different nations may express differential preferences for the location of their alliances and the form that they take. For the most part, such preferences have been explained by using organization level variables such as organization size, international strategy or transaction costs (Gray and Yan, 1992). While there is relatively little comparative research on the topic of alliance choice, there is some evidence, both direct and indirect,
that the decisions on which partner to choose and on the location of the alliance itself may be linked to the values of the decision-makers and organizational characteristics which reflect the cultural milieu.

In their study on strategy types in Malaysian industrial companies, Sim et al. (1997) provided evidence that the strategic typology of Miles and Snow (1978) can be applied to Malaysian industrial firms. The slightly higher preponderance of prospector and analyser strategies reflected the rapidly growing and changing markets in Malaysia which necessitated firms to be responsive to market conditions. In the Malaysian context, this situation could be attributed in part to the smaller size of firms in Malaysia and the greater tendency towards more personalized decision making among CEO’s in Malaysia (Sim et al. 1997).

Many of the theories explaining the existence of alliances are based on a consideration of transaction costs. Under certain conditions, organizations may benefit more from internalising their exchanges through a third unit in which each holds an interest. In one of the best known expositions of this approach, Buckley and Casson (1988) argue that both sides must resist the temptation to take advantage of the cooperative arrangement to gain a better strategic position if the enterprise is to be a continuing, mutual success. If the alliance cuts across cultures, this may pose problems in a number of ways. The two partners may not have the same understanding of what mutual forbearance implies. In part, this may be due to communication difficulties, but it may also be due to culturally influenced beliefs concerning loyalty to a foreign partner (as opposed to domestic
industrial allies), the importance of fixed fluid agreements and the long term strategic outlook of the partners. Where the perception of the agreement is rendered non-congruent by cultural biases, the risk of accidental transgression of the mutual forbearance tenet is heightened. The issue of “loyalty” pre-figures a conceptual concern that the prevailing theoretical approaches to alliance adopt an instrumentally rational approach rather than being space for the affect influenced judgements of potential and actual partners.

One of the hurdles on which alliance may founder is perceptions of time. Several years after describing his four cultural dimensions, Hofstede added a fifth dimension based in part on the perception of time (Hofstede and Bond, 1988). Hofstede and Bond (1988) have said that Hofstede (1980) did not discover this dimension in his original research because there was little difference in the way that Western societies perceived the linear passage of time. It was only when parallel work was done in Asian countries that the distinction emerged. Contrasting time constructs and differing time horizons can have important effects on the operation of international joint ventures. Japanese organizations are known for their strategies of long term market penetration and growth, while American organizations seek short term profit maximisation. In part, these contrasting strategies stem from different views of wealth accumulation, but they are also underlain by quite different time horizons. Contrasting views of time by dominant and minority partners in international alliances can alter the strategies themselves (Ganitsky and Watzke, 1990). Dominant partners with longer time horizons may favour market protection strategies in their own milieux but market development strategies abroad. Chinese managers are more likely to trade time for accuracy when making a decision
than their American counterparts (Baird, Lyles and Wharton, 1990). Where the view of
time or time horizons differs between partners, as between Western and Asian or Latin
countries, both operational and human resource difficulties are likely to arise.

Difficulties may also arise from basic conceptions of how the alliance should operate. The Baird, Lyles and Wharton (1990) study uncovered significant differences between the views of the Chinese and US managers on the way that alliances should be run and the role that managers should play. Among other attributes, the managers differed on the use of authority and power, managing appropriate levels of uncertainty, and the preferred type of links between managers and subordinates. There was an especially pronounced difference on the subject of allocation of routine and important work. Such pronounced attitudinal differences do not necessarily mean that a cross border alliance will fail, but they do mean that greater effort may be needed in order to understand and accommodate the partner’s point of view.

Shane (1993) argues that a preference for high power distances in a national culture denotes a lower level of trust. From this, he hypothesises that countries with higher power distance scores should prefer wholly owned subsidiaries over alliances as a means of foreign investment. Adding power distance to Contractor’s (1990) market based model for explaining preference for alliances over other types of investment arrangements produces a significant increase in explanatory power. Shane interprets this result as implying that higher transaction costs for organizations located in high power distance cultures will cause them to prefer the more direct control mechanisms implicit in wholly
owned subsidiaries. A similar argument has been made in relation to the preferred location of alliances. Because new alliances of any type create uncertainty, managers may seek situations in which uncertainty can be reduced or minimised. In cultural terms, this means finding partners and locations with a small cultural distance from the investor. If Shane’s (1993) view is valid, then it would add power in its own right to Contractor’s (1990) model.

The impact of cultural distance on alliances can be seen in the uncertainties that their managers encounter. In a study of role ambiguity faced by managers of international alliances, Shenkar and Zeira (1992) found that reported role ambiguity differed according to cultural distance. The authors used five indices of cultural difference, Hofstede’s four dimensions [Power Distance, Uncertainty Avoidance, Individualism, and Masculinity (Hofstede, 1980)] and a summary of the four which they called cultural distance. The composite measure was not significantly related to role but the four individual dimensions were. Shenkar and Zeira (1992) found perceived role ambiguity was higher when power distance and masculinity gaps were higher. However, higher role ambiguity was also related to smaller differences in collectivism and uncertainty avoidance. This would seem to imply that, for some cultural dimensions, being too close is likely to pose more problems than being reasonably distant. If two cultures have similar but not identical demands for uncertainty avoidance, it may be difficult to know how much information is required before a subordinate feels confident in acting, let alone trusting or bonding. If the difference were larger the problem would be better defined and the solution perhaps more obvious. The discovery of contrasting culture effects among
Hofstede’s (1980) four dimensions also points to the dangers of simply summing a group of cultural measures and labelling the result “cultural distance”.

Within the cross border alliance literature single-minded attention has been paid to alliances between Japanese and Western organizations, especially the cause of their high failure rates (Brown, Rugman and Verbeke, 1989). While a number of explanations for failures have been offered, notably the mismanagement of the alliance once they have been established, there are indications that some of the failures, at least, are due to cultural differences. One possible difficulty may lie in the very definition of success for an alliance, or indeed any other enterprise (Turpin, 1993). Japanese managers typically emphasise increased market share and the introduction of new products. For American managers, high returns on investment, and maximising returns to shareholders, are paramount. Cultural influences here may be expressed directly, through the criteria managers use to judge their own performance, and indirectly, through the mechanisms set up to manage the joint venture itself. The tendency for American-Japanese alliances in Japan to be headed by Japanese may ensure that short term profitability will not be high on the list of priorities. This practice reflects a cultural preference for retaining prestige posts for nationals, as well as the practical considerations of local connections and language facility.

The differences in the objectives of Japanese and American partners are underlined by the factors that lead to Japanese satisfaction with alliance performance. Organizational learning, development of human resources and market diversification may all be factors
which weigh heavily in the evaluation of alliance performance for Japanese participants. Japanese managers seem to recognise a wider variety of benefits that may flow from the alliance, so their levels of satisfaction are not tied to a single indicator. This seems to be true for a variety of partners, not simply Americans (Cullen, Johnson and Sakano, 1995).

One of the key factors in the success or failure of an international alliance is the management of human resources. Depending on the location, ownership and mission of the alliance, there may be some ambiguity as to whether the alliance’s employees belong to the alliance or to one of the parent organizations. This ambiguity can be exacerbated by the time horizon of the alliance and the value of loyalty to be found in the partner organization’s cultures. The difficulty here may lie in the question, not just to whom the employee is loyal but to where that loyalty is directed. Japanese, who are lent to an alliance, especially one of intended short duration, maintain loyalty to the parent company in line with strong long term employment prospects and the system of mentoring which facilitates advancement. Mexican employees limit their commitment to organizations, in part because of the strong collectivist attitudes centred on the family (Teagarden and von Glinow, 1990). Failure to understand the framework in which partners evaluate loyalty and trust may lead to unrealistic expectations or failure to fulfil those of one’s counterpart.

The success of a cross border alliance depends on the perceived “fit” of the partners. For most writers, the term “fit” refers to the congruence of strategic goals, organizational structures or personnel resources. For others, however, it has come to include the fit
between cultures and its effect on human resource issues. A lack of congruence can affect organizational effectiveness:

This lack of congruence would be any conceptual incongruity between the host and foreign HRM systems; for example, a highly specific selection system (or reward system, performance appraisal system or career path structure) versus a selection system that does not include assessment, recruitment devices and other mechanisms associated with highly specific systems (Teagarden and von Glinow, 1990:27).

If the alliance brings together cultures whose understanding of how employees are recruited, motivated and evaluated is at variance with one another, the alliance project may be severely handicapped.

The idea of fit or congruence can be applied to more general characteristics of alliances. Meschi and Roger (1994) examined fifty-one joint ventures between Hungarian organizations and partners from five other countries. Using a perceptual measure of cultural distance, they found that greater national distance, as they termed it, led to significantly less organizational effort and organizational attachment, as well as higher levels of conflict. If the managers of the alliances perceived that Hungarian culture was distinct from that of their partners, they tended to be less committed to the alliance and to encounter more conflict over its direction. Although there was no direct measure of effectiveness, it seems safe to conclude that national distance does not inhibit the effective functioning of alliances, at least in this particular context. The distance between organizational cultures of partners was also examined as a factor affecting social effectiveness. While organizational culture also had an impact on social effectiveness, in general it was less important than that of national culture.
Cross border alliances represent an attempt by managements from two or more national cultures to work together toward some common goal. The research in this area, illustrated in Figure 3.6 below, shows that national culture plays a significant part in determining the shape of cross border alliances, the partners involved and, most importantly, their chances of success. Precisely because the two cultures are brought into intimate contact, the difficulties that may arise from operating with different cognitive and affect frameworks are easier to recognise. Despite the evidence that national culture is a crucial consideration in the design and operation of cross border alliances, there has been relatively little research directed towards understanding its actions (as opposed to its effects), perhaps because of the difficulty of matching theoretical concerns to appropriate methodological approaches (Parkhe, 1993).

### Figure 3.6 Previous Studies on National Culture

<table>
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Source: Cullen, Johnson and Sakano, 1995

### 3.3.9 Trust/Bonding and Organisations

Trust has received attention as a mechanism of organisational control and as an alternative to price and authority (Bradach and Eccles, 1989), as a response to the
emphasis on opportunism that pervades agency theory and transaction cost economics (Etzioni, 1988; Bromiley and Cummings, 1992), as a key factor in managerial beliefs and philosophies (Sitkin and Roth, 1993; Miles and Creed, 1995), and as a necessary element in the operation of alliance forms of organisation (Powell, 1990; Miles and Snow, 1992; Miles and Creed, 1995). In at least some of these cases, the focus has been on the inadequacies of the assumptions that underlie organisational economics.

Despite the increased interest in trust, there does not yet appear to be a consensus on the place of trust in organisation theory. Trust functions, according to Powell (1990:305), as a remarkably efficient lubricant to economic exchange [that] reduces complex realities far more quickly and economically than prediction, authority, or bargaining. In line with these notions of the essential nature of trust, Bromiley and Cummings (1992) argue that the level of trust within an organisation affects its structure and processes. Trustworthy behaviour, according to Bromiley and Cummings (1992), actually reduces transaction costs.

There is a little question that within the alliance form trust requirements are high and the consequences of failing to meet them are severe. Alliance partners are expected to forego the right to pursue self-interest at the expense of others (Powell, 1990:303) and recognise their co-dependence with upstream and downstream partners. Within alliance trust allows reduced transactions costs (Bromiley and Cummings, 1992) and assures those contemplating a long-term relationship that adaptations to future contingencies will be
made in a jointly optimal way (Lorenz, 1998:201). It may be that alliances depend on minimal transaction costs to obtain both their responsiveness and efficiency.

Definitions of trust have involved two principle concepts; (1) reliance (Giffin, 1967, Rotter, 1980) and (2) risk (Gambetta 1988, Mayer et al. 1995). Currall and Inkpen (2002) define joint venture trust as the decision to rely on another joint venture party under the condition of risk. Risk creates the opportunity for trust (Rousseau et al. 1998). Thus, trust is based on social judgements such as assessment of the other party’s benevolence, competence (Currall, 1992), together with assessment of the costs if the other party turns out to be untrustworthy. This thesis acknowledges that various conceptualizations of trust exist in the organizational studies literature. Viewing trust as a decision to take action allows the joint venture researcher to extend the level of theory and measurement to the firm, which is the level where most research involving trust and joint ventures has been carried out.

As Inkpen and Currall (1998) discussed, joint venture trust has both antecedents and consequences, which means that trust plays a crucial role in the overall nature of joint venture processes (see also Sydow, 1998). Over time, as the partners and partner managers learn about each other and the joint venture becomes an operating entity, the level of inter firm trust will change, which means trust should be viewed as an evolving rather than static concept (Currall and Inkpen, 2003). Trust requires familiarity and mutual understanding and hence, depends on time and context (Nootbeoom et al. 1997).
As the relationship progresses, previous successes, failures, and partner interactions will influence the level of trust (Hirschman, 1984). For example, when a joint venture is formed, there is a subjective probability that a partner will cooperate. Experience will lead to adjustment of the probability, which in turn may lead to a shift in the level of trust. The next important theory which received scant attention in the literature but has huge implication on the study of strategic alliances is institutional theory. This chapter will also consider this alliance theory for which the thesis is based.

3.3.10 Institutional Theory

Much market activity is arranged through the existence of institutions embedded in economic, political and cultural arrangements (Dacin, Goodstein & Scott, 2002; North, 1990). Institutions are shared, collective understandings or rules of conduct reflected in laws, rules, governance mechanisms and capital markets (North, 1990; Scott, 2001), which helps to define observed patterns of market exchange (Fligsten, 1996).

Firms do not have an unlimited array of strategic actions from which to make choices. Rather, in order to enhance their likelihood of success, they choose from a defined set of legitimate options as determined by economic opportunity, resources and institutional forces within an industry and a country or region (Ahlstrom & Bruton, 2001; Hoffman 1999). Firms are embedded in social frameworks of norms, values and rules of exchange.
that define appropriate economic behaviour and influence strategic choices (Fligstein, 1996).

Institutional arrangements can produce entry barriers or create opportunities for action. Therefore, institutional arrangements as reflected in government legislation, the nature of property rights and the presence or absence of professional and commercial norms of behaviour, determine the boundaries and paths for acceptable action. As a result, variation in strategic actions across contexts may be a function of differences in the existence, saliency and intensity of particular institutional arrangements. For example, Kogut, Walker and Anand (2002) found that inter industry firm diversification patterns varied across countries because of differences in institutional arrangements. Park and Ungson (1997) argued that the values and norms embedded in the institutions could also affect the development and management of strategic alliances.

Bianci (2002) showed that a firm’s success with an international strategy was a function of its conformity to institutional norms most salient in the local country contexts. Additionally, even though Japan, South Korea and Taiwan have much geographic and cultural similarity, Orru, Biggart and Hamilton (1997) found significant variation in management practices across these countries. Thus, institutional arrangements influence the evolution of national economies, organizational forms and managerial actions.
Some countries may need changes in their institutional arrangements in order to compete
in global markets (Rondinelli & Behrman, 2000). Governments create institutional
arrangements that promote and facilitate effective macroeconomic policies, liberalize
trade and finance, protect private property rights and privatize the ownership of state
enterprises (Rondinelli & Behrman, 2000). However, Newman (2000) observed that too
much change in institutional arrangements creates chaos and may reduce rather than
increase the opportunity for organizational changes necessary to compete effectively in
global markets. Nonetheless, effective institutional change can be challenging to

Institutional theory emphasizes the influences of the systems surrounding organizations
that shape social and organizational behaviour (Scott, 1995). Institutional forces affect
organizations’ processes and decision making. Perspectives derived to examine these
institutional forces have both an economic orientation (Clague, 1997; Coase, 1998;
North, 1990) and a sociological orientation (DiMaggio & Powell, 1983; Scott, 1995).

New institutional economics focuses on the interaction of institutions and firms resulting
from market imperfections (Harriss, Hunter & Lewis, 1995). North (1990) argued that
institutions provide the rules of the game that structure human interactions in societies
and that organization are the players bounded by those formal and informal rules. The
role of institutions in an economy is to reduce both transaction and information costs
through reducing uncertainty and establishing a stable structure that facilitates
interactions.
From a sociological orientation, Palmer, Jennings and Zhou (1993) studied the institutional constraints on U.S. corporations’ strategies in developed market economies. Peng and Heath (1996) argued that the internal growth of firms in transition economies is limited by institutional constraints; as a result, a network-based growth strategy was expected to be more viable in emerging economies. Peng (1997) analysed three large enterprises in China and confirmed this explanation. In addition, Child and Lu (1996) argued that the economic reform of large state-owned enterprises was moving very slowly because of material, relational, and cultural constraints. Similarly, Suhomlinova (1999) found that government institutions and influences had a negative impact on Russian enterprise reform. At the individual level, Lau (1998) suggested that political and market pressures were the institutional constraints faced by chief executives in Chinese enterprises. Thus, many emerging economy firms facing change were influenced by existing institutional realities.

Institutions can also facilitate strategy, allowing enterprises to react to and play a more active role in an institutional environment if firms have an adaptive ability that allows them to move beyond institutional constraints (Oliver, 1991). Institutional change provided proper incentives and changes in corporate culture that enabled firms, even that owned ones, to make improvements. Additionally, Lee and Miller (1996) found that in Korea, a relatively developed economy, firms benefited from a number of cultural and institutional factors. For example, firms employing traditional technologies were more successful in obtaining government help by following legitimate technological norms.
The number of theoretical and empirical studies using an institutional perspective in emerging economies is limited, even though some theorists have argued that this perspective is the most applicable paradigm for explaining enterprise behaviour in emerging economies (Shenkar & Von Glinow, 1994). Emerging economies, characterized by trends towards “marketization” and privatization, but still heavily regulated, provide the necessary institutional influences in developing and testing theories. Previous research points to the importance of studying the speed and nature of institutional change and its impact upon enterprise strategies. Institutional factors also have many dimensions, each of which can change at a different rate. As Tolbert and Zucker (1996) pointed out, the process of institutionalization should be of interest in future theoretical and empirical work. The emerging economies are undergoing changes that will facilitate the study of institutional processes. This observation suggests that researchers should employ longitudinal designs to capture the process elements of institutional effects and compare experiences in economies at different stages of this process.

Oliver (1991) argued that firms can change their institutional environments by developing strategic responses instead of adapting passively. Thus, studies related to how firms develop growth-oriented responses from an active strategic choice perspective, instead of just constrained strategic choices (Bluedorn et. al, 1994), would be more relevant. Such a research perspective would extend the ideas of a firm’s sustainable competitive advantages (Hennart, 1994; Oliver 1997) to an emerging economy context.
From the institutional economics perspective, how firms restructure themselves in response to institutional change could be a focus in strategy research.

The current study of institutional effects on emerging economy firms has focused mostly on state owned enterprises (Child & Lu, 1996; Peng, 1997; Suhomliva, 1999). Obviously, state owned enterprises are directly affected by government institutions; however, the institutional environment including cultural, political and other factors has effects on other enterprises (private firms, international joint ventures) in emerging economies (Sullivan, 1998; Temple & Voth, 1998). The need to explain the process and outcomes of institutional influences in non state owned enterprises is also important. Moreover, there is also a need to examine the enduring institutional effects in privatized enterprises. Lastly, the effects of the larger institutional context on individual responses rather than on whole firms (Calori, Johnson & Sarnin 1992; Rajagopalan, Rasheed & Datta, 1993) have not been thoroughly studied. A focus on individual responses to institutional form might cause confusion in studies that cross multiple levels of analysis ranging from societal to individual but a more comprehensive examination of the societal and firm level effects on Managerial responses will enhance understanding of the total institutional effects on individual managerial behaviour as well as top management team orientations.

3.4 Role of Strategic Alliances

The proliferation of strategic alliances has been increasing in the last decade across all business sectors. Strategic alliances represent one of the most popular strategies for firms from multiple countries to share risk and resources, to gain knowledge and to obtain
access to new markets. Forming strategic alliances has become one of the most common means of entering new international markets (Lane & Beamish, Osborn & Hagedoorn, 1997). Strategic alliances include such collaborative venues as equity joint ventures or non equity agreements relating to manufacturing, marketing, distribution and research and development. Alliances are designed to allow partners to share risk and resources, gain knowledge and obtain access to markets. International alliances are cooperative arrangements with cross-border flows and linkages that utilize resources from autonomous organizations headquartered in separate countries (Parkhe, 1991). The general intent of strategic alliance is to establish and maintain a long term cooperative relationship in order to compete more effectively with firms outside the relationship (Jarillo 1988; Walker & Poppo, 1991).

It is important to appreciate the now common use of strategic alliances in the 21st century by organizations, both for profit and not for profit, as a means to (1) reduce uncertainty, (2) provide flexibility, (3) provide capacity, (4) provide speed, (5) provide access to resources and skills not owned and (6) provide information. According to Fumio Sato, CEO of Toshiba Electronics Company (Sato, 1993):

*It is no longer an era in which a single company can dominate any technology or business by itself. The technology has become so advanced, and the markets so complex, that you simply can’t expect to be the best at the whole process any longer.*

Likewise, Rosabeth Moss Kanter (1994:96) observes that alliances between companies, whether they are from different parts of the world or different ends of the supply chain, are a fact of life in business today. Growth strategies and entering new markets have been identified among the top reasons for forming strategic alliances by a Coopers and
Lybrand study (Coopers and Lybrand 1997, cited in Elmuti and Kathawala 2001). This observation is in line with Ohmae’s (1992) views that companies simply do not have the time to establish new markets one by one. Moreover, “today you have to be in all important markets simultaneously if you are going to keep competitors from establishing their positions. Globalization will not wait. You need alliances and you need them now but not the traditional kind of joint ventures” (Ohmae 1989:147). According to the Coopers and Lybrand (1997, cited in Elmuti et al. 2001) study, 50 percent of firms involved in alliances market their goods and services internationally compared to 30 percent of non allied participants. Indeed, strategic alliances have become increasingly popular, that they have moved from being a way to enter foreign markets of peripheral interest or gaining some returns from peripheral technologies, to become a part of the mainstream of corporate activity (Beamish and Killing 1996:1613).

Strategic alliances are becoming more and more prominent in the global economy. Peter Drucker, who has been called the father of management theory states: “The greatest change in corporate culture, and the way business is being conducted, may be the accelerating growth of relationships based not on ownership, but on partnership” (Drucker, 1996). The number of strategic alliances has almost doubled in the past ten years and is expected to increase even more in the future (Booz, Allen and Hamilton, 1997). According to a study conducted by Anderson Consulting, “82 percent of executives believe that alliances will be a prime vehicle for future growth” (Kalmbach and Roussel, 1999). The study also predicts that within five years, strategic alliances will
account for 16-25 percent of medium company value and 40 percent of the market value for about a quarter of the companies.

The potential of strategic alliances strategy is enormous. If implemented correctly, it can dramatically improve an organization’s operations and competitiveness (Brucellaria, 1997). According to a survey conducted by Coopers & Lybrand, 54 percent of firms that formed alliances did so for joint marketing and promotional purposes (Coopers and Lybrand, 1997). Companies are forming alliances to obtain technology, to gain access to specific markets, to reduce financial risk, to achieve or ensure competitive advantage (Wheelan and Hungar, 2000). However, while many organizations often rush to jump on the bandwagon of strategic alliances, few succeed (Soursac, 1996; Malott, 1992; Michelet and Remacle, 1992). The failure rate of strategic alliances strategy is projected to be as high as 70 percent (Kalmbach and Roussel, 1999).

Governments worldwide encourage and stimulate strategic alliances (Mockler, 1999). In cooperation with multinational firms, governments use strategic alliances in many ways:

1. To privatise state-owned companies while continuing to profit from and to some degree control the businesses

2. To attract capital while nurturing local businesses

3. To bring technology to their country

4. To improve overall economic performance quickly, especially in developing countries, without entirely relinquishing control of local businesses to foreign operators.
3.5 Motives for Creating Strategic Alliances

The Coopers & Lybrand study rates growth strategies and entering new markets among the top reasons for forming strategic alliances (Coopers & Lybrand, 1997). As Ohmae (1992) points out; “Companies simply do not have time to establish new markets one by one”. In today’s fast paced world economy, this is increasingly true. Therefore, forming an alliance with an existing company already in that marketplace is a very appealing alternative. Partnering with an international company can make the expansion into unfamiliar territory a lot easier and less stressful for a company. Coopers and Lybrand (1997, cited in Elmuti et al. 2001) more specifically identify the following types of alliances amongst their clients:

- Joint marketing/promotion, 54 percent
- Joint selling or distribution, 42 percent
- Production, 26 percent
- Design collaboration, 23 percent
- Technology licensing, 22 percent
- Research and development contracts, 19 percent
- Other outsourcing purposes, 19 percent

The rationale behind the use of alliances is sound and no doubt well established in the extant literature. This is so despite initial scepticism by leading business commentators, including Michael Porter who has argued that alliances are mere transitional devices rather than stable arrangements and hence destined to fail (Porter 1990). Porter’s pessimism has been discounted by both Ohmae (1989:144) who submits that alliances are not mere tools of convenience as they are important “instruments of serving customers in a global environment” and Yoshino et al. (1995:103) who argues that alliances enable
firms to focus on and invest in a few selected core competencies, leverage the competencies of other firms, and thereby grow into formidable global competitors. Due to the perceived utility of alliances, many organizations often rush into joining the bandwagon of strategic alliances. Indeed, Farris (1999, cited in Elmuti et al. 2001) observes that over 20,000 corporate alliances were formed worldwide between 1997-1999 alone while alliances over the past 10 years have doubled and the increase is expected to be unabated (Booz, Allen and Hamilton 1997, cited in Elmuti et al. 2001). Another study conducted by Anderson Consulting, reports that 82 percent of executives believe that alliances will be the prime vehicle for future growth and that by 2004, they will constitute $25-40 trillion in value (Kalmbach and Roussel 1999, cited in Elmuti et al. 2001; Ettorre 2000:7)

Not all companies can provide the technology that they need to effectively compete in their markets on their own. Therefore, they are teaming up with other companies who do have the resources to provide the technology or who can pool their resources so that together they can provide the needed technology. Both sides receive benefit from the partnership. Technology transfer is not only viewed as being significant to the success of a strategic alliance, according to Hsieh (1997): “host countries now demand more in the way of technology transfer”. Indeed, many companies are forming alliances looking for the best quality or technology, or the cheapest labour or production costs (Quinn, 1995).

Some companies may find that that financial risk that is involved in pursuing a new product or production method is too great for a single company to undertake. In such
cases, two or more companies come together and agree to spread the risk among all of them. One example of this is found in strategic alliances between Boeing, Aerospatiale of France, British Aerospace, Construcciones Aeronauticas of Spain and Deutsche Aerospace of Germany. These airplane manufacturers created an alliance to spread out the extremely high costs of developing a new large jet airplane (Wheelan and Hungar, 2000; Das and Teng, 1999).

Alliances are particularly alluring to small businesses because they provide the tools businesses need to be competitive (Page 1998). For many small companies the only way they can stay competitive and even survive in today’s technologically advanced, ever-changing business world is to form an alliance with another company or companies. Small companies realize the mutual benefits they can derive from strategic alliances in areas such as marketing, distribution, production, research and development and outsourcing (Page 1998). By forming alliances with other companies, small businesses are able to accomplish bigger projects more quickly and profitably, than if they tried to do it on their own. Self reliance is an option few companies will be able to afford (Booz, Allen and Hamilton, 1997).

Malaysian firms in particular exhibit a preference for joint ventures (Sim, 2006) which is similar to the behaviour of other MNEs form developing countries (Ting, 1985; Monkiewicz, 1986). However, a considerable part of the network is not necessarily ethnic based, but based on industry relationships (Sim, 2006). The strategic alliance motivations of Malaysian firms were basically the search overseas for low cost bases and markets
(Sim, 2006) and other location based advantages, brought together by an extensive web of ethnic networks and aided by government encouragement and institutional framework.

3.6 Challenges in Implementing Global Alliances

The trend toward strategic alliances in business has not brought about the results envisioned by the participants in many cases. Most studies tend to focus more on the determinants of their success rather than for the reasons they fail. It is the risks and problems that need to be analysed more fully to determine the true reasons why over 60 percent of strategic alliances fail (Kalmbach and Roussel, 1999).

Cultural clash is probably one of the biggest problems that corporations in alliances face today. “These cultural problems consist of language, egos, chauvinism and different attitudes to business can all make the going rough. Problems can be particularly acute between a publicly quoted Western holding company, keenly focused on shareholders value and Japanese partners who have different priorities (Kilburn, 1999, p22). The first thing that can cause problems is the language barrier that they might face. It is important for the companies that are working together to be able to communicate and understand each other well or they are doomed before they even start. From a different perspective, Steensma et al. (2000) indicated that national cultural traits directly influence strategic alliance formation and moderate the relationship between perceived technological uncertainty and alliance formation.
Risk sharing is the primary bonding tool in a partnership. A sense of commitment must be generated throughout the partnership. In many alliances cases one company will point the failure finger at the partnering company. Shifting the blame does not solve the problem, but increases the tension between the partnering companies and often leads to alliance ruin (Lewis, 1992). Building trust is the most important and yet most difficult aspect of a successful alliance. Many alliances have failed due to lack of trust causing unsolved problems, lack of understanding and despondent relationships (Lewis, 1992,p 46).

In today’s business world, many strategic alliances are formed for the wrong reasons. This will surely lead to disaster in the future. Many companies enter into alliance to combat industry competition. In this case, the company is probably already doomed and is just taking another along for the ride (Kilburn, 1999). Many strategic alliances although entered into for all the right reasons, do not work. Dissimilar objectives, in ability to share risks and lack of trust lead to an early alliance demise. Many managers enter into an alliance without properly researching the steps necessary to ensure the basic principles of cooperation (Lewis, 1992).

Action taken by subordinates that are not congruent with top level management can prove particularly disruptive, especially in instances where companies remain competitors in-spite of their strategic alliance. If it were to happen that one company would go off on its own and do its own marketing and sell its own product while in alliance with another company it would for sure be grounds for the two to break up and they would most likely
end up in a legal battle (Bruner, 1999). Other problems that can occur between companies in trade alliances are different attitudes among the companies, one company may deliver its good or service behind schedule or do a bad job producing their goods or service which may lead to distrust among the two companies.

Relational risk is concerned with the probability that partner firms lack commitment to the alliance and that their possible opportunistic behaviour could undermine the prospects of an alliance. Such opportunistic behaviours include shirking, appropriating the partner’s resources, distorting information, harbouring hidden agendas and delivering unsatisfactory products and services (Das and Teng, 1999). Because these activities seriously jeopardize the viability of an alliance, relational risk is an important component of the overall risk in strategic alliances.

Performance risk is the probability that an alliance may fail even when partner firms commit themselves fully to the alliance. The sources of performance risk according to a recent study by Das and Teng (1999) include environmental factors, such as government policy changes, war, and economic recession, market factors, such as fierce competition and demand fluctuations and internal factors such as a lack of competence in critical areas or sheer bad luck.

Strategic alliances might also create a future local or even global competitor. The coupling from research and development and from production can create serious difficulties for the protection of intellectual property and the realization of its potential
value (Garnsey and Wilkinson, 1994, p.138). Likewise, a company can insist on contractual clauses that constrain partners from competing against it in certain products or geographic regions (Wild et al., 2000). Other problems in strategic alliances include a breakdown in trust, a change in strategy, the champions moved on, the value did not materialize, the cultures did not mesh and the systems were not integrated (Kalmbach and Roussel, 1999).

Effective global alliances are usually tediously slow in the making but can be among the best mechanisms to implement strategies in global markets. In a highly competitive environment, alliances present a faster and less risky route to globalization. It is extremely complex to fashion such linkages, however, especially where many interconnecting systems are involved, forming intricate networks. Many alliances fail or end up in a takeover in which one partner swallows the other. McKinsey & Company, a consulting firm, surveyed 150 companies that had been in alliances and found that 75 percent of them had been taken over by Japanese partners. Problems with shared ownership, the integration of vastly different structures and systems, the distribution of power between the companies involved, and conflicts in their relative locus of decision making and control are but a few of the organizational issues that must be worked out. But recent economic woes in Asia have turned the tables somewhat, with Western companies having to buy out their financially stressed allies in order to survive.

Often, the form of governance chosen for multinational firm alliances greatly influences their success, particularly in technologically intense fields such as pharmaceuticals,
computers and semiconductors. In a study of 153 new alliances, researchers found that the choice of the means of governance, whether a contractual agreement or a joint venture, depended on a desire to control information about proprietary technology. Thus, joint ventures are often the chosen form for such alliances because they provide greater control and coordination in high-technology industries.

Cross border partnerships in particular often become a race to learn with the faster learner later dominating the alliance and rewriting its terms. In a real sense, an alliance becomes a new form of competition. In fact, according to researcher David Lei (1997), perhaps the single greatest impediment managers’ face when seeking to learn or renew sources of competitive advantage is to realize that cooperation can represent another form of unintended competition, particularly to shape and apply new skills to future products and businesses.

All too often, cross border allies have difficulty in collaborating effectively especially in competitively sensitive areas, creating mistrust and secrecy which then undermine the purpose of the alliance. The difficulty that they are dealing with is the dual nature of strategic alliances – the benefits of cooperation versus the dangers of introducing new competition through sharing their knowledge and technological skills about their mutual product or the manufacturing process (Figure 3.7). Managers may fear that they will lose the competitive advantage of the firm’s proprietary technology or the specific skills that their personnel possess. The cumulative learning that a partner attains through the alliance could potentially be applied to other products or even other industries that are
beyond the scope of the alliance and therefore would hold no benefit to the partner holding the original knowledge. As noted by Lei (1997), the Japanese in fact have far out learned their U.S. allies in developing and applying new technologies to other uses.

The enticing benefits of cross-border alliances often mask the many pitfalls. In addition to potential loss of technology and knowledge or skill base, other areas of incompatibility often arise such as conflicting strategic goals and objectives, cultural clashes and disputes over management and control systems. Sometimes it takes a while for such problems to evidence themselves, particularly if insufficient homework has been done in meetings between the two sides to work out the implementation details. The alliance between KLM Royal Dutch Airlines and Northwest Airlines linking their hubs in Detroit and Amsterdam for example resulted in a bitter feud among the top officials of both companies over methods of running an airline business – the European way or the American way and over cultural differences between the companies as well as a power struggle at the top over who should call the shots.
Figure 3.7  The dual role of strategic alliances

<table>
<thead>
<tr>
<th>COOPERATIVE</th>
<th>COMPETITIVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economies of scale in tangible assets (e.g., plant and equipment).</td>
<td>Opportunity to learn new intangible skills from partner, often tacit or organization embedded.</td>
</tr>
<tr>
<td>Upstream-downstream division of labor among partners.</td>
<td>Accelerate diffusion of industry standards and new technologies to erect barriers to entry.</td>
</tr>
<tr>
<td>Fill out product line with components or end products provided by supplier.</td>
<td>Deny technologies and learning initiative to partner via out-sourcing and long-term supply arrangements.</td>
</tr>
<tr>
<td>Limit investment risk when entering new markets or uncertain technological fields via shared resources.</td>
<td>Encircle existing competitors and pre-empt the rise of new competitors with alliance partners in “proxy wars” to control market access, distribution and access to new technologies.</td>
</tr>
<tr>
<td>Create “critical mass” to learn and develop new technologies to protect domestic, strategic industries.</td>
<td>Form clusters of learning among suppliers and related firms to avoid or reduce foreign dependence for critical inputs and skills.</td>
</tr>
<tr>
<td>Assist short-term corporate restructurings by lowering exit barriers in mature or declining industries.</td>
<td>Alliances serve as experiential platforms to “demature” and transform existing mature industries via new components, technologies, or skills to enhance the value of future growth options.</td>
</tr>
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3.7  Salient Factors Influencing Strategic Alliances

First, cultural heritage has been found to have a strong effect on executives’ strategic orientations. Differences in national culture result in the formation of differing managerial ideologies which in turn have the potential to affect strategic decision processes in firms (Chung & Lee, 1989; Hitt, Dacin, Tyler & Park, 1997). For example, Texas Instruments (TI) and Hitachi managers had to bridge their cultural differences and learn to work together over time prior to the development of their memory chip joint venture (Hitt et al., 1997). This was due to significant differences in their decision making processes. TI managers used a common American approach, whereby managers would meet to discuss an issue, brainstorm solutions and then make a decision. Alternatively, Hitachi managers often held informal discussions and agreed on a decision prior to a formal meeting where the decision was ratified. Similarly, CFM International,
the successful joint venture designed to produce jet engines between GE and Snecma of France, had to overcome culturally based differences in problem solving. Snecma’s managers desired using outside consultants from the French armed services and government to help solve problems, but GE preferred to rely on its own managers. Managers from both firms worked to overcome these differences and the joint venture has been successful (Slocum & Lei, 1993; GE Aircraft Engines News Release, 1995).

Second, differences in level of economic development can produce differences in alliance motives. The objectives of alliances partners often differ when one partner is from a developed country and the other is from a lesser developed or developing country. Firms from developed countries frequently seek out new market opportunities for their products. Partners from developed countries look to partners from developing countries to provide access to local knowledge, including customs and business practices, political connections as well as the ability to satisfy the host government’s foreign investment requirements. On the other hand, partners from lesser developed or developing countries seek access to technology, export opportunities and the opportunity to gain international alliance experience. Thus, partners differ by level of economic development with respect to alliance motives and expected benefits (Beamish, 1988, 1994).

The joint venture between GE and Malaysia Airlines exemplifies the different motives of alliance partners from developed and developing countries. The venture called the `Aero Centre of Excellence’ will overhaul airplane engines in Subang, Malaysia. Malaysia Airlines’ goal is to upgrade its aerospace technological capabilities, whereas GE gains
access to a new market. In fact, GE plans to use the Aero Centre to service all of its Asia Pacific customers (GE Aircraft Engines News Release, 1996).

Sulaiman et al. (1999) in their study on factors affecting Malaysian joint ventures performance posited that absorptive capacity, foreign parent assistance, articulated goals, trust, and culture and goal conflict may impact IJV (international joint ventures) performance and knowledge acquisition. Contrary to prior research and their predictions, absorptive capacity, articulated goals, and culture and goal conflict did not significantly predict performance. However, foreign parent assistance was strongly and significantly related to all measures of performance. While trust was not found to be significantly related to overall performance or to knowledge acquisition, significant and surprising negative relationships were found between trust, human resource performance, and business performance.

Sulaiman et al. (1999) in their study on performance and problems of international joint ventures in Malaysia suggested a number of factors to facilitate overall effectiveness of IJV such as the degree of autonomy, the degree of transferring knowledge and the assistance received from the foreign parents. Factors that inhibit performance include the influence of the foreign parents in decision making and the extent to which IJV has had to deal with problems.

Finally, differences in government support and foreign investment policies can influence the alliance process. Government support in the form of national and industrial policies
can motivate certain forms of industrial development. Foreign investment policies that require a significant amount of local investment constrain the pool of available partners and influence the decisions of foreign firms with respect to the capabilities they seek in a partner. Additionally, government regulation requiring indigenous ownership of business operations may result in the surrendering of control by foreign partnering firms. Given the need to relinquish control of resources, foreign partners may require that domestic partners have expertise in manufacturing, possess local knowledge of the target market, and have close ties to government officials. These requirements reduce the risk of value loss as foreign firms sacrifice ownership for greater guarantees of alliance success. More importantly, however, foreign firms which must deal with such regulation may demand a greater degree of commitment on the part of their domestic partners (Ghemawat, 1986). For example, foreign firms may seek partners that are willing to invest considerable amounts of fixed assets into the alliance and are especially dependent on alliance success for their future viability.

In this way, foreign firms’ fear of surrendering control may be offset by commitment to common goals. Sim (2006) indicated the key role government, ethnic network and relationships played in the internationalization of Malaysian multinational companies. His findings reinforced the basic proposition that the social and institutional framework is a distinguishing feature in many Malaysian firms as well as other Asian firms and need to be incorporated in any further development or refinement on MNE (Multinational Enterprises) theories. In Malaysia, the government took a very active role in promoting the internationalization of Malaysian firms. Investment promotion missions abroad were
organized and often led by the Prime Minister. The Malaysian government linked companies benefited from its government links and business associates to form joint ventures and strategic alliances. As a result, MNEs operating in the Asian context have to manage this institutional context successfully (Sim, 2006).

In summary, there are differences in cultural, economic and institutional forces between developed and newly developed or developing countries that lead to different priorities for firms headquartered in separate countries. Prior to an alliance, it is difficult to assess a potential partner’s intentions.

3.8 Partner Selection – Justification for research

A Technology Associates and Alliances (1999) survey asked 455 CEO’s to rank the importance of certain success factors for strategic alliances and the results of that study indicated that 70% percent of the CEO’s were of the opinion that partner selection was the most critical success factors for strategic alliances.

Hence, partnership selection is perhaps the most important step in creating a successful alliance. A successful alliance requires the joining of two competent firms, seeking a similar goal and both intent on its success. The term “competent firm” is relative to the involved parties strategies, objectives and goal. A strategic alliance must be structured so that it is the intent of both parties that it will actually succeed through the need for speed, adaptation and facilitated evolution. The foundation of a successful strategic alliance is
laid during the internal formation process (Lorange et al, 1992). This internal formation process includes partner selection and the initial agreement between parties.

Selecting an appropriate partner and itemizing the rules of the alliance are the most intensive process in the formation of an alliance. Yet done correctly, they help ensure a higher quality, longer lasting relationship. No business relationship is guaranteed but when given enough information it has a more solid foundation upon which to build. Having selected a partner, the alliance should be structured so that the firm’s risks of giving too much away to the partner are reduced to an acceptable level. Figure 3.8 depicts the four safeguards against opportunism by alliance partners. Opportunism includes the theft of technology or markets that Hill (1999) describes. The safeguards are walling off critical technology, establishing contractual safeguards, agreeing to swap valuable skills and technologies and seeking credible commitments.
An alliance is a lot like a marriage. There may be no formal contract. There is no buying and selling of equity. There are few, if any, rigidly binding provisions. It is a loose evolving kind of relationship. Both partners bring to an alliance a faith that they will be stronger together than they would be separately. Both believe that each has unique skills and functional abilities the other likes. And both have to work diligently over time to make the union successful (Ohmae, 1992).

Strategic alliances have become increasingly important, but a high level of dissatisfaction with actual outcomes relative to expectations has been reported and many are not successful (Madhok & Tallman, 1998; Park & Russo, 1996). Although it is difficult to identify precise failure rates, Hennart, Kim and Zeng (1998) argued that international
strategic alliances are likely to have high dissolution rates. Approximately 50-60% of alliances formed are unsuccessful in accomplishing the partners’ objectives. Besides the inherent risk, one of the most often cited reason for alliance failure is the incompatibility of partners.

While much of the literature has been focused on the justification and formation issues of alliances, the main cause of failure is partner selection, hence the focus of this thesis in this area. Leading business journals are only beginning to discuss this failure rate (Elmuti et al. 2001:206).

Strategic alliances research can be broadly categorized into three areas; (1) antecedents, which include motives promoting strategic alliance formation and partner selection (e.g. Geringer 1991; Tallman and Shenkar, 1994), (2) outcomes, which encompass studies relating to failure and performance (e.g. Brown, Rugman and Verbeke, 1989; Makino and Delios, 1996; Pearce, 1997), and (3) specific management issues pertaining to, for example, control and conflict (e.g. Fey and Beamish, 2000; Yan and Gray, 1994). The issue of partner selection is arguably pre-eminent in this list of topics for the success and stability of the joint venture. “Marriage” is widely held to be determined by the compatibility of the alliance partners (Luo, 1997; Saxton, 1997). Consequently, considerable empirical work has been done with a view to identifying the determinants of a good match (Harrigan, 1988; Lasserre, 1984; Luo, 1998).
The choice of the right partner can yield important competitive benefits, whereas the failure to establish compatible objectives or communicate effectively can lead to insurmountable problems. Furthermore, the need to understand both partners’ similarities and differences is paramount in ensuring the success of alliances. Partners enter collaborative ventures with certain expectations and objectives. Thus, it is critical for managers to identify and understand effective partner selection criteria prior to entering into joint ventures. This is especially important in an international setting where differences in culture, infrastructure, economic development, and government policies increase the complexity of the context in which the alliance is embedded (Slocum & Lei, 1993). The decade of the 1980s saw a burgeoning amount of cross cultural research focused on Japan. Relatively little attention has been focused on Malaysia. Therefore, the decision to form an alliance is a critical one. After a firm has made the decision to engage in an alliance, its selection of an appropriate partner is the next critical decision (Hitt, Tyler, Hardee & Park, 1995). Koot (1988) argued that the partner selection process is difficult but also critical to alliances success. Some research exists on partner selection (Geringer, 1988; Lane & Beamish, 1990; Saxton, 1997) but more research is required to explain the basis on which firms select partners.

The choice of a partner is an important factor affecting alliance performance. Finding the right partner requires careful screening and can be a time consuming process. Developing an understanding of partner’ expectations and objectives can also take time. However, many alliances are formed by chance meetings or through previous experience with the partner. For example, Texas Instruments and Hitachi developed a joint venture to produce
memory chips. However, the two firms first began a working relationship in 1988 by conducting joint research. Thereafter, they incrementally extended their relationship (Hitt et al, 1997). The joint venture success is partially the result of the partner selection process. In an international setting, informal brokering of an alliance can be fraught with problems. Firms need to be cautious in selecting partners because there is considerable risk and investment involved. However, due to competitive pressures, many firms rush into alliances without adequate preparation or understanding of partners’ needs and, all too often, these alliances fail.

While partner selection is an integral component of alliance success, very little research has devoted explicit attention to this issue and these are discussed below. Where literature has examined the subject, this has generally been limited to a mere outline of the reasons for the establishment of an alliance and how such an alliance is then operated. Tomlinson’s (1970) investigation of the joint venturing process in India and Pakistan represents an early study in this area. Although this study provided much food for thought in relation to how partners are selected, it cannot be regarded as the last word on the subject because Tomlinson’s results were tempered by certain factors. Firstly, his research was based on local markets in India and Pakistan, his sample being forty nine British firms involved in seventy IJVs in these countries. Added to this, his selection categories were not mutually exclusive. There is also the fact that since some of the IJVs had been formed more than twenty years before he interviewed his respondents, the information he received might not have been accurate even if it had come from executives. If it had come from workers who had not been directly involved in selection,
there was even less chance of the results being completely accurate. A further study, undertaken by Tomlinson and Thompson (1977), dealt with firms in Canada and Mexico. The study was, however, limited in that it did not examine how often or how earnestly certain partner characteristics were looked for by either side, or any particular variables which might have a bearing on the criteria used. Further, the research related to hypothetical IJVs which might be formed in the future; it did not deal with actually implemented IJVs.

In order to examine whether JVs behave differently if they involved local partners with different operating characteristics, Renforth (1974) looked at the process of IJV formation between American multinational corporations and local family or non family firms in Jamaica and Trinidad and Tobago. As in Tomlison and Thompson (1977) a degree of artificiality may have been accorded to some of the answers because respondents apparently evaluated criteria relating to hypothetical IJVs. Renforth (1974) tried to split the criteria into whether they had a strong, mild or no influence on the choice of partner, but it was shown that at 0.01 level, the categories chosen failed to show statistically significant differences in means. The researcher did, however, draw from his information the conclusion that sound and equitable results could be obtained from IJVs which could accept differences relating to philosophy, policies or operating methods produced by the incorporation of a family or non-family firm partner. The family variable was the only contextual variable documented by Renforth – he did not expand upon any other context variable which might have a bearing on the ranking of specific selection criteria.
In his study on foreign direct manufacturing investment in the USA, Daniels (1971) also made a limited investigation of investment through IJVs. He concluded that firms looked for partners who were of similar size. In this way, it was argued a company could be assured that the two firms gave the JV about the same importance (Daniels, 1971). Two firms of similar size would then be set in close equilibrium for the purpose of bargaining (Daniels, 1971; Geringer, 1991). A study by Adler and Hlavacek (1976) was concerned with JVs which operated in the field of product innovation and which were ‘large’ and ‘small’ in comparison with one another. Within the non-random sample employed, the researchers listed typical criteria used by such firms to choose JV partners. This listing included a soundly based market distribution system in the market to be served, a suitably sized sales force, with sound skills and imagination calling on a range of customers previously established, the level of technology to improve on or add to one’s own technological base, the type of personnel required, a given available minimum financial resource and relative company size. However, the study was limited in that it provided no knowledge covering relative frequency or the importance attached to each, nor did it make any attempt to establish how such criteria might differ from those employed for those JVs which were more or less the same size or who were not concerned with product innovation.

Forty manufacturing IJVs in the USA were used by Awadzi (1987) to look at the links between the selection of partners and relative bargaining power. He concluded with four selection criteria, each having a hypothesized positive relationship with IJV performance. These criteria comprised of complementary resources provided by the partners, past
business association between partners, links between businesses and links between foreign partners’ and IJVs businesses. Again, the study was limited in that Awadzi did not identify differences in priority among different resource contributions or contextual variables which might influence these priorities. Neither did he specifically state what contributions would be acceptable as complementary resources; he left this choice up to the respondents. None of his selection criteria showed significant positive relationships with IJV performance except for non-financial complementary resources.

One of the first to systematically conduct an in-depth study of partner selection criteria was Geringer. He found that a partner’s national culture, past experience, size and structure were as important in partner selection as task related criteria, such as partners’ technical know how, financial assets, managerial experience and access to markets (Geringer, 1988). However, much work remains to understand the criteria by which firms select effective alliance partners. Understanding partner expectations can ease both the structuring and functioning of the alliance.

In his summary of prior research, Geringer (1991) posits that the process of partner selection is considered to be of crucial importance to the formation and operation of IJVs (international joint venture). Local partner selection is even more critical to IJV success in the context of newly emerging economies which are characterized by dynamic and complex environments as the right partner can increase the IJV’s adaptability, improve the strategy environment configuration and reduce uncertainty (Luo, 1997). Although the importance of selecting the right partner to the success of the joint venture has been
proposed by a number of authors (Killing, 1983; Geringer, 1988; Dacin et al., 1997; Medeof, 1997), relatively little empirical research has been reported in the literature (Beamish, 1987; Luo, 1997). Geringer (1991) contributed to the extant literature by developing a simple twofold typology of partner selection criteria. He distinguished task related and partner related dimensions of selection criteria to provide a better understanding of the partner selection process and how firms proceed in selecting partners.

Task related criteria are associated with the operational skills and resources that a venture requires for its competitive success. Task related criteria therefore refer to those variables that are intimately related to the viability of a proposed IJV’s operation, irrespective of whether the chosen investment mode involves multiple partners. Typical examples are patterns, technical know how, financial resources, experienced managerial personnel and access to marketing and distribution channels. Partner related criteria, in contrast, refer to those variables that become relevant only if the chosen investment mode involves the presence of multiple partners. Typical examples are the national or corporate culture of a partner, compatibility or trust between the partners’ management teams, the degree of favourable past association between the partners, and the size or corporate structure of the partner.

Using Geringer’s typology, Glaister (1996) investigated aspects of selection criteria in UK alliances with partner firms from Western Europe and also examined the relationship between strategic motives for alliance formation and selection criteria. In a further study
Glaister (1997) compared the differences in the relative importance of task and partner related selection criteria in UK international joint ventures from the perspective of a sample of UK firms and foreign firms from advanced industrial economies. Some support was found in the latter study for the hypothesis that the relative importance of task related selection criteria vary between UK firms and foreign firms, but no support was found for the hypothesis that relative importance of partner related selection criteria vary between UK firms and foreign firms.

In their study of joint ventures between West European and Russian firms Arino et al. (1997) explored the task and partner related criteria West European firms use when selecting a Russian partner. They essentially found that relative to partner related criteria task related criteria had a lesser weight in the process of partner selection, a finding which is consistent with Geringer’s (1991) finding that the relative importance of selection criteria is contingent upon the strategic context of partnership.

In connection with Indo-German technical collaborations, Kumar (1995) identified a number of partner selection criteria for choosing technology receiving partners from the viewpoint of maximising learning success. These criteria range from industrial experience, foreign experience and acquaintance with Western culture, existing long term relationships with local partners, contacts and connections of local partners, to production facilities and qualified local personnel. The German technology suppliers were asked to evaluate the selection criteria they applied in choosing their Indian partners, while the latter were asked to rate how important they thought the same criteria were for their
German partners in selecting them. Kumar (1995) essentially found that while the Indian partners evaluated the selection criteria more positively than the German partners, based on the mean measure of the selection criteria both groups of partner firms ranked the selection criteria comparably. The most important criterion was the ‘connections of Indian partner in the local community,’ whereas the least important in the view of both was the ‘Indian partner’s foreign experience’ and his ‘familiarity with Western culture.’

In their analysis of partner selection criteria employed by the US and Korean firms when forming international alliances, Dacin et al. (1997) noted a number of significant differences in the characteristics sought for alliance partners. They basically found that the US executives placed strong emphasis on the financial assets of a partner as well as its intangible resources. In contrast, Korean executives placed significant emphasis on the potential partner’s technical capabilities (e.g., the ability to develop new processes or product technologies) along with other special skills that could be learned from the partner and the partner’s willingness to share its expertise. Considering the complete range of important criteria adopted by both groups of managers, Dacin et al. (1997) also noted several similarities in the criteria used although their relative ranking in importance for partner selection differed. Partner selection should also be integrated with the strategic motives of IJV partners. In other words, both foreign and local partner firms should be able to identify what criteria to use in choosing partners and what criteria are crucial to their goal accomplishment (Luo, 1998).
Given the differences in cultural, economic and institutional factors between developed and developing countries, and building on the expected varying level of relative importance of strategic motives between groups of partner firms, it is further expected that the relative importance of partner selection criteria for IJV formation will vary between foreign partner and local partner groups. The changing global context requires firms to develop new global strategies. Improved telecommunications coupled with rapid technological development are driving firms to find new ways of maintaining a competitive edge. Firms from newly industrialized countries (NIC) such as South Korea, Taiwan, Hong Kong, Singapore, Mexico, Malaysia and Brazil are applying competitive pressure to firms from traditional industrialized nations. While firms from these NICs share some similarities (e.g., emphasis on the group versus individualism, adherence to authority), important differences can be traced to their unique cultural heritage, distinct ideologies, and differing economic and political infrastructures (Deyo, 1987; El Namaki, 1986; Kim, 1992; Lodge & Vogel, 1987). It is imperative that firms from industrialized nations be aware of both similarities and differences if they are to compete effectively and form alliances with firms from these countries.

In forming alliances, selecting the right partner is of paramount importance but it becomes more critical in alliances between firms based in different countries. These firms need to select partners that have compatible goals, appropriate skills, effective motivation and complementary strategic orientations. This is because managers must find ways to develop win-win deals for these alliances to be successful. However, it is more difficult to find compatible partners in cross border alliances because firms based in different
countries may have largely different criteria in selecting partners and thus seek different benefits from the alliances. For example, the joint venture between GM (US) and Daewoo (Korea) was unsuccessful, largely because the two firms had different strategic orientations and goals and as a result were largely incompatible. Because of these differences, Daewoo was seeking growth and access to new markets while GM’s overriding goal was to achieve reasonable financial returns. Because the financial returns were negative, GM management was unwilling to make further investments to achieve the growth desired by Daewoo. As a result, they ended their partnership, both losing substantial investments in the joint venture (Hitt, Tyler, Hardee & Park, 1995).

It is unlikely that alliance partners will have complete agreement on alliance objectives and expected benefits because the institutional context in which the alliance is embedded varies by country. A significant amount of economic action is embedded in cognitive, cultural, structural and political factors that shape firm behaviour (Zukin & DiMaggio, 1990).

Partner selection does not occur in a vacuum. Much firm behaviour is nested or embedded in a broader political, economic and social context that shapes action (Dacin, Ventresca & Beal, 1999). Emerging markets have become a critically important global phenomenon and there is need for more research on them. In particular, there has been little research on strategic alliances with partners in emerging markets (Lee & Beamish, 1995). Beamish (1994) argued that joint ventures, the most common form of strategic alliance are the dominant strategy used in emerging markets by multinational firms.
Firms search for strategic alliance partners that have resources they can leverage (Hitt, Dacin, Levitas and Borza, 2000). They can leverage resources that are complementary by integrating them to create synergy. Or firms can learn skills and capabilities from their partners that enhance their own competencies and thus, their competitive advantages. However, the types of resources firms seek to leverage and the capabilities they need to learn will vary with their market context (emerging or developed). Although there may be some similarities in the resources emerging and developed market firms seek from partners, there are differences in the importance each places on certain resources, capabilities and characteristics. The theoretical explanation for the differential partner selection criteria used by firms from Malaysia is largely drawn from the resource based view of the firm and organizational learning theory.

Geringer (1991) is one of the few people to have studied the subject at any great length. He sets out several factors which need to be considered in the selection of suitable joint venture partners. Figure 3.9 illustrates the process of selecting a joint venture partner. The left hand column shows a flow chart of the phases involved in the selection process, and the right hand column represents influences which come into play at particular stages.
Primarily, a company needs to distinguish its future goals and act accordingly. Such aims may involve expanding to a new market, gaining access to new technology, distribution networks and marketing experience, or rationalizing production, exploiting economies of scale, or minimizing transaction and production costs. Once the company’s future objectives have been identified, the next step is to decide how they can be accomplished. If the need for a joint venture is then identified, the subsequent problem is the selection of a suitable partner. Initially, companies need to be concerned with strategic compatibility, complementary skills and resources, relative company size, and financial capability. It
should thus become apparent which firms cannot provide the necessary attributes to form a successful joint venture.

Resource based and organizational learning perspectives help explain why firms select particular alliance partners (Barkema, Bell & Pennings, 1996). Firms have specific resources endowments (Barney, 1991) but may need additional resources to be competitive in particular markets (Hitt, Nixon, Clifford & Coyne, 1999). Such a need is a primary reason for strategic alliances and for the selection of specific alliance partners. Resources of particular interest in cross-border alliances include financial capital, technical capabilities, managerial capabilities and other intangible assets, such as firm reputation. In addition to seeking local market knowledge and access, developed market firms with large resource endowments try to leverage their resources by selecting alliance partners with complementary capabilities and unique competencies. Alliances provide the opportunity to combine the resources of both partners, yet often firms enter alliances to build their own resource endowments. That is, they wish to acquire knowledge and learn new skills and capabilities (Mothe & Quelin, 1998). Less resource endowed firms may desire to learn new technical and managerial capabilities, whereas more resource endowed firms want to gain knowledge of markets and build relationships to provide access to those markets (Khanna, Gulati & Nohria, 1998). Thus, the interactive learning opportunities gained from the experiences of partners in an alliance (March & Levitt, 1999) help firms add to their capabilities even tacit components and build their resource endowments (Lane & Lubatkin, 1998). Resource endowments and organizational learning are particularly important in alliances between developed market firms and
emerging market firms. Pan (1996), in the context of Chinese IJVs, suggests that local players partner with foreign partners to gain access to key upstream resources such as product and manufacturing technology as well as expertise and training to manage it. Lyles and Steensma (1997) and Lyles et al. (1999) observe similar instances for IJVs in Hungary and Malaysia, respectively. To summarize, foreign partner essentially possesses valuable upstream skills and assets such as technology, know how and brands that require huge capital investments but are globally fungible, i.e., transferable from one market to another. In contrast, local partners possess skills and assets that are specific to the local context but are limited in their application in the rest of the world (Anand and Delios, 2002).

Emerging markets provide a particularly rich setting to understand the firm characteristics used in partner selection. For example, differences in the nature of formal and informal institutions in these two contexts affect the extent of uncertainty and ambiguity in resource decisions. Over time, formal institutions shape the informal rules by which organizations operate. The relative economic and social stability in developed countries promotes the development and acceptance of rules of exchange. In contrast, the economic and sometimes social instability in emerging markets produces ambiguity and uncertainty regarding the rules of exchange; in this context, the rules are largely emergent (North; Pedersen & Thomsen, 1997).

In emerging markets, the strategic alliance is a relatively new form of organizing (Lewin, Long & Caroll, 1998). Also, important differences in the underlying institutional
infrastructures of emerging and developed markets affect managers’ strategic orientations (Garten, 1996). Luthans, Patrick and Luthan (1995) suggested that even countries that are geographically proximal can be economically, politically and culturally distant in significant ways. Finally, although emerging economies have grown at a stronger pace than most developed country economies, many of the businesses in emerging markets are young or recently privatized (DeCastro & Uhlenbruck, 1997) and their resource endowments are unlikely to be strong. Thus, emerging market firms may use alliances as a means of acquiring tangible and intangible resources to develop their capability to compete in their domestic and global markets with multinational firms from other countries. Firms from developed countries tend to have richer resource endowments, but they nevertheless also search for partners with specific resources, tangible and intangible to complement their resource bases. Child and Faulkner stated that when one of the partners comes from an emerging country and the other from a highly developed economy, their configuration of objectives will almost certainly differ from that in the case of partners from two developed countries (1998;297). Thus it is important to consider the different contexts in which strategic alliance partner selection decisions are embedded.

The pace of political change and the size of economic gains have not been uniform across all emerging economies. Macroeconomic stabilization, a precondition for external financial assistance has been particularly difficult to achieve. The development of market institutions such as legal infrastructures that provide the basis for effective corporate governance, has been even slower and more difficult (ERBD, 1998). Economic and
political shocks have greatly increased the uncertainty and risk for both domestic firms and foreign investors. Missing institutional features for instance shortages of skilled labour, thin capital markets, infrastructure problems as well as political and economic instability and public suspicion of foreign firms have deterred inward foreign direct investment. The primary impediment appears to be the lack of well defined property rights that convey exclusivity, transferability and quality of title (Devlin, Grafton & Rowlands, 1998). Lack of strong legal frameworks has allowed a large increase in opportunism, rent shifting, bribery and corruption (Nelson, Tilley & Walker, 1998). These problems have particularly affected the ability to enforce property rights even where legislation has been enacted (Estrin & Wright 1999). As a result, institutional capacity building was and continues to be a key for attracting inward FDI (Rondinelli, 1998).

The rapid and widespread adoption of market based policies by emerging economy governments raises important issues for the strategies adopted by private enterprises, both domestic and foreign. At the same time as domestic policies are becoming more market oriented, emerging economy governments are opening their countries to foreign markets and joining regional trading associations. New relationships between foreign and domestic enterprises are emerging as strategic alliances replace export processing zone and subcontracting arrangements. Enterprise strategies in emerging economies are therefore facing strong environmental pressures for change, yet this change is neither smooth nor automatic nor uniform across different markets.
3.9 Limitations of the Literature Review on Partner Selection

The literature indicates that much prior work on alliance partner selection examined the selection decisions made by foreign entrants, commonly from developed nations (Geringer, 1988). Disappointingly, very little research has been carried out in the context of emerging economies. As an example, it was not possible to obtain any verifiable data on the number of strategic alliances formed in Malaysia or the percentage of all businesses in Malaysia that would fall into that area. There was also no single directory or readily available list of international strategic alliances in Malaysia.

With the exception of Shenkar and Li (1999), little work has been done on how firms domiciled in developing economies approach alliance partner selection. Previously, Hitt, Dacin, Levitas, Arregle and Borza (2000) employed a resourced based framework to examine different alliance partner selection decisions made by firms in developed and emerging markets. However, Hoskisson, Eden, Lau and Wright (2000) argued that research should be extended to increase the understanding of institutional forces present in emerging economies. In response, this research will extend the work of Hitt et al (2000) by comparing the characteristics of international strategic alliance partners preferred by managers in firms based in Malaysia, one emerging economies with differing institutional environments. Thus it is imperative to consider the different contexts in which strategic alliance partner selection decisions are embedded.

In conclusion, extant research in the partner selection criteria did provide valuable insights into the partner selection criteria. However, it failed to establish distinct,
mutually exclusive criteria that can be generalised. In fact, establishing criteria that can be generalised is very difficult. Geringer (1991) also acknowledges this and suggested that “the relative importance of partner selection criteria may be determined, on a contingency basis by the variables associated with the strategic context of the strategic alliance and the parent firm”. Indeed, the actual process by which potential alliance partners are first identified seems to have been largely ignored in the literature in preference for a focus on selection outcomes. This omission is somewhat surprising given that the selection process, deemed to be fundamental in the pursuit of high performing ventures, can be disassembled into at least two stages; initial identification and subsequent evaluation of potential candidates (Williams and Lilley, 1993). While much is known about the latter exercise, the former has received little attention from scholars.

It is plausible to assume that the default proposition implicit in the literature is that partner selection is made on the basis of objective information gathered systematically via market research. In other words, once the decision to cooperate has been made, the identification of potential partners follows a linear process whereby a large number of candidates are systematically screened according to the predetermined criteria identified by Geringer (1991) and others. Sources used in the initial identification of potential alliance partners may include embassies and consulates, government agencies, management consulting companies and investment advisors (Tsang, 1995). However, there is evidence to indicate that investors do not follow this approach in practice (Wong and Ellis, 2002). It can thus be seen that past research into identifying the selection criteria which companies use, and particularly into defining those variables which might
show why firms place differing importance on the criteria they apply, has not been very successful. We can, however, draw certain conclusions from the research undertaken. First, the importance given to partner selection is an obvious and important variable. It is a definite and specific decision in the creation of strategic alliances and we can see what selection criteria were used and how important they were in the decision. The significance granted to selection of a suitable partner is grounded in the importance of compatible and complementary skills, resources, procedures and policies to a successful strategic alliance.

Former Malaysian Prime Minister (1981-2003), Dr Mahathir bin Mohamed, is well known for his campaign for the preservation of “Asian Values” and they have permeated the relations between state and market in Malaysia. Thus, this study of international strategic alliances also casts light on the path of economic change in a non western society. To the extent that a considerable proportion of the discourse of strategic alliance is characterized by the developed country and universalistic, “one size fits all policy approach”; a different approach is called for.

3.10 Conclusion

Emerging economies such as Malaysia provide a social context for examining how institutional changes provide opportunities for probing how competitive advantage changes. Many competitive advantages in emerging economies are based on network relationships and close business government ties, with firms becoming effective monopolies in their home markets. As the institutional context changes, there are
necessary changes in both firms’ asset structures and orientations. Opportunities as well as challenges must be met by new resources. For instance, business groups in the past have had advantages based on asymmetries in foreign direct investment. They must now change and evolve toward a business model that does not rely on government lobbying or generic financial investment strategies (Galvez & Tybout, 1985). Product markets must also evolve as more dynamic competition develops.

Emerging market economies are not homogeneous, even within the same geographic region. Latin America, East Asia, Africa/Middle East and Central and Eastern Europe, taken as four groups have manifestly different starting points, but even within these regions countries differ markedly. In Central and Eastern Europe, there are clear differences in regime between countries such as Hungary and Poland and countries of the former Soviet Union. Moreover, even though the now independent republics of the former Soviet Union had a common starting point, they have pursued different paths to transition and have achieved different degrees of progress (ERBD, 1998). Similarly in East Asia there are clear differences between formerly centrally planned countries such as China and Vietnam and other emerging economies such as Korea.

The term “emerging economies” suggests a process that takes place over a considerable period of time. Enterprises in different markets and different countries may be expected to adopt market based strategies at different times and rates because institutional factors are also changing at different times and rates. This observation suggests a need for
longitudinal studies. However, there has been little research using a longitudinal approach. There is therefore both need and scope for further longitudinal studies.

The focuses of research on emerging economies to date have been China and some countries of Central and Eastern Europe. However, 64 countries in four regions (Latin America, Asia, Africa, Middle East and Central and Eastern Europe) have been identified as emerging economies. There is therefore, a need for considerable broadening of the research agenda to embrace development in these countries. Many of these countries have received little research attention; this is especially true of the Southeast Asia region. Therefore more research is required on this region because individual emerging economies are progressing in widely different ways.

This chapter has surveyed the economic and cross-border theories in which strategic alliances are becoming an increasingly popular organisational form. The first part of the chapter notes the changing nature of the economic world in which industry boundaries are becoming blurred, economic units are becoming pan-national, and enterprises are becoming federated and increasingly flexible. It draws attention to two of the major forces behind these changes, namely the shrinking of the world in communications terms conducing to the globalisation of tastes and markets. Secondly, the chapter looked at the globalisation of technologies, accompanied by shortening product life-cycles, leading to the need for greater levels of investment than single companies can easily accommodate. It suggests that all these forces lead to the renaissance of cooperative strategy and to strategic alliances in particular.
The second part of the chapter reviewed some basic theories of strategic alliances as they emerge from macro trade theories, and in particular those strands of theory upon which the propositional model (described in Chapter Five) and the research reported in this thesis is based. The transaction costs approach is outlined as the economic efficiency theory most frequently cited to justify particular organisational forms on the grounds of economic efficiency; the modern theory of international trade is described to illustrate the place of strategic alliances in the ever changing configurations and forms of coordination that perceived cross-border demands and needs are bringing about.

The principal traditional economic theories of competition are then referred to as background to the resource based theory of competitive advantage. The resource dependency perspective is outlined as one of the most commonly cited motivational theories for strategic alliances, and the concept of corporate learning as the philosophy that enables those resource dependency defects to be remedied through focussed knowledge accumulation. The theoretical section then cites modern chaos theory as an important constituent contribution to the theory that competitive advantage depends as much, on the bounded instability that stimulates creativity, as on the stability that brings about efficiency. If the lineaments of this theory are accepted, the advantages of the inherently flexible and changing alliance form may be preferable to the more rigid integrated corporation. According to Nonaka (1989), the globalisation process must involve overlaps, an element of chaos in the interests of creativity, and therefore substantial redundancy of information flows, for only through information excess can new forms develop.
The importance of this thesis should be emphasised again here. Firstly, it helps fill the gap in the literature on strategic alliance partner selection and secondly, it fills the current void on the lack of study into alliance partner selection in Malaysia. Although actual usage of the term ‘strategic alliance’ dates back to the mid 1980s in Malaysia, this author has not located any published study that analyses the partner selection issues involved in strategic alliance. This, however, does not imply that strategic alliances have not been in existence in Malaysia. In fact they have, but have been referred to as networking, joint ventures or partnerships. More recently, the Malaysian press has been inundated with news about the emergence of many more such alliances. Examples include the option of securing a strategic alliance partner for the national carmaker Proton (Star 2004), the new distribution alliance between Honda and DRB Hicom (Star 2003), the expansion of Telekom Malaysia into Indonesia, Tan Chong enters joint venture in Vietnam, Golden Hope venture into South Africa, Ingress drives into Asean markets, Proton in China car tie-up, Faber Group expands operations in India and many more.

This chapter has met its objectives as outlined in section 3.1. It established a working definition of strategic alliance and used its key components to categorise the extant literature that was reviewed. These variables include macro and micro environment components, culture and institutional context that run through the entire chapter. Then it reviewed alliance background economic theories to the phenomenon of strategic alliances and strategic alliance partner selection as immediate disciplines of the thesis, respectively. The chapter undertook case reviews of alliance management gleaned from the extant literature in both the West and developing countries. This process was
analytical rather than merely describing the extant literature (Perry 1994; Zuber-Skerrit et al. 1986) thereby fulfilling the requirement of theoretical triangulation (Yin 1994).

The literature review process gave rise to three research questions and a holistic conceptualisation of the strategic alliance partner selection process. The review found that although there is growing body of literature on strategic alliance, the focus is only on either one or two of the alliance components and each theoretical approach focuses only on preferred managerial aspects of developed countries to the neglect of others vis a vis emerging countries. Therefore this thesis seeks to plug this gap by analysing partner selection process from a holistic and Malaysian companies perspectives and synthesising the strengths of each theoretical approach.

The literature review unearths a list of research questions and gaps which this thesis seeks to address. Following the advice of Perry (1994) the list of research questions and research gaps are outlined in this summary section.

Research questions:

1. What key characteristics did Malaysian companies search for in a partner candidate?
2. What initial conditions were critical for the future success of the partnership and what were the main differences between the two organizational cultures?
3. What did each partner bring to the partnership to add value?
4. What initial obstacles in the partnership were most difficult to overcome?
5. Were the legal contracts effective to protect the interest of Malaysian firms?

6. What kind of things did companies identify in their partner that made them trust it and what kind of actions or initiatives did the companies take to accelerate the process of trust building?

7. How important were the interpersonal relationships and how did the relationships change as time went on?

Research gaps:

1. Although strategic alliances are on the rise around the world not much empirical research has been undertaken on the causes of their high failure rate, currently around 70 per cent.

2. The alliance partner selection plays a pivotal role in determining the outcome of alliances, yet not much research has been undertaken on this critical process.

3. There has been no empirical research into strategic alliance partner selection and relationship in Malaysia.

4. Present research on strategic alliance has focused only on preferred managerial aspects of strategic alliances to the neglect of a holistic approach to alliance managerial problems such as partner selection process.

In addition to the research questions and gaps, this chapter has established that although it is possible to derive a general holistic conceptualisation of alliance partner selection applicable to both developed and emerging economies, there are vast differences in terms
of institutional contexts analysed here, hence requiring different respective strategies. For example, because developing country alliances operate in highly volatile and information void environments, strong relationship cultures and political skills are required of alliance managers. Thus, what appears at the outset to be dysfunctional behaviours of organisations may actually, be coping strategies.

Overall, the purpose of the remaining chapters of this thesis is to close the research gaps and provide answers to the research questions. The fulfilment of these tasks will lead to solving the key research problem posed concerning the need to inform the process of partner selection in Malaysia. The generation of research questions from the literature review essentially depicts the exploratory nature of this thesis using the case study approach as its research procedure (Perry 1994). The importance of this chapter lies in the fact that it has established a conceptual context upon which the methodology (Chapter four) is based.
CHAPTER 4  RESEARCH METHODOLOGY

4.1 Introduction

Chapter one outlined the reason for using the case study method to understand the relatively new phenomenon of strategic alliance in Malaysia. Chapter three then set out to review the extant literature on strategic alliance, from which justification for the research project was outlined in terms of the current literature on strategic alliance. From the gaps in the literature, three research questions were derived and emerged for investigation.

The purpose of this chapter is to describe and justify the choice of methodology for this study, based on the epistemological and ontological assumptions made in the context of the nature of the research problem. The chapter begins by juxtaposing the positivistic paradigm to that of the interpretivist paradigm. It then outlines the reasons for the selection of the interpretivist paradigm and its phenomenological orientation in the context of the research. This leads to the justification of the case study method. Research procedures are outlined to ascertain the real and desired situations regarding strategic alliances in Malaysia. Data collection strategies are outlined, and issues of case selection, units of analysis, case studies, piloting of data collection instruments, are addressed. Issues of research quality are considered and the measures adopted to optimize the reliability, validity and generalisability of data and findings are outlined. Issues of bias and triangulation are also discussed. Finally, the ethical issues involved in the study are discussed. The key steps in the selection of a research methodology are outlined in Figure 4.1 below.
Three factors influenced the selection of the research paradigm which was used to address the research questions. The first of these was the nature of the research questions themselves. Secondly, recommendations on research approach were sought from within the strategic alliance literature. Thirdly, recommendations were identified within the literature pertaining to research strategy. These three influences are represented in Figure 4.2 below. This thesis stresses the point that methods should follow from research questions. How we do something depends on what we are trying to find out. This point is
stressed because, too often in the past teaching of research methods, we have put the methodological cart before the substantive (or content) horse (Punch, 1998). This has been called ‘methodolatry’, the idolatry of method, and has been particularly characteristic of (though not exclusive to) the quantitative approach. According to Punch (1998:5):

Many previous research methods books have taught methods ‘in the abstract’. They are only about methods, and there is little connection between methods, on the one hand, and defining and analyzing research problems, on the other. I think research methods texts now need to be more eclectic, and stronger in connecting methods to problem and question identification, definition and analysis. In actually doing research, methods can constrain and influence the questions that can be asked.

Punch (1998:21) uses the term ‘methodolatry’, a combination of method and idolatry, to describe a preoccupation with selecting and defending methods to the exclusion of the actual substance of the story being told. ‘Methodolatry’ is the slavish attachment and devotion of method that so often overtakes the discourse in the social science fields (Janesick, 1994:215). ‘Methodolatry’ thus means putting method before content. It is first learning the method, then, finding research questions that can fit into the method. It is looking for research questions guided by methods.
Figure 4.2: Overview of factors Influencing Research Methodology Selection

Factors Influencing Research Methodology Selection

- Nature of the research questions themselves
- Recommendations from review of literature on strategic alliance
- Recommendations from review of literature on research methodology

4.2 Justification for the paradigm and methodology

Although it is not within the scope of this thesis to discuss at length the strengths and weaknesses of the positivistic and interpretivist paradigms, it is important to establish why one paradigm is considered more appropriate than another. Thus, the purpose of this section is to briefly differentiate the two paradigms.

It is important for researchers to recognize and understand their ontological and epistemological orientation within their personal paradigm as this will determine the entire course of their research project (J. Hussey and R. Hussey 1997:47). In fact, a study has to be framed within the philosophical and theoretical perspectives (Creswell 1998). Philosophical points of view range from both perspectives, such as epistemological and ontological assumptions, through ideological stances, such as postmodernism and critical perspectives, to more narrowly defined theories comprising propositions and hypotheses.
(Flinders and Mills 1993, cited in Creswell 1998). Once a paradigm is chosen it is advisable for the researcher to remain within that paradigm in line with the Kuhnian tradition (Kuhn 1970), since it is difficult for the researcher to argue simultaneously that (s)he believes that social reality is separate and external, and that it is merely a construction of the mind. This researcher adopts a single paradigm although others have argued for a mixture under terms such as multiparadigm and metatriangulation (Gioia and Pitre 1990; Lewis and Grimes 1999). At the methodological level, however, mixing methodologies is possible for data collection (J. Hussey et al. 1997; Creswell 1994; Jick 1979; Gable 1994). Researchers must also demonstrate familiarity with controversies and positions taken by authorities within a corpus of knowledge (Perry 1995). It is imperative that researchers clearly outline the epistemological or philosophical basis for “claiming to know what we know; the substantive basis for our knowledge claims” (Easton 1998: 73).

The two main research paradigms propounded in the literature are the positivist/quantitative and interpretivist/qualitative paradigms, although there is considerable blurring between the two (J. Hussey et al. 1997; Checkland 1999; Perry 1995; Pawson and Tilley 1997). The term interpretivist has been used interchangeably with the concept of phenomenological as a paradigm in the literature. However, to avoid confusing the use of the word phenomenology as a methodology with that of being a paradigm, this researcher has opted to stick with the Weberian concept of interpretivism. It is also important to note that although the preference of this researcher is for the phenomenological paradigm, it is advisable to regard the two paradigms as the two extremes of a continuum (J. Hussey et al. 1997:48). Thus, although positivism is
associated with deductive reasoning and phenomenology with inductive reasoning, scientific and social inquiry in practice typically involves an “alteration between deduction and induction” (Babbie 1998:60). During the deductive phase, one tends to reason towards observations, during the inductive phase, one reasons from observations; both deduction and induction are routes to the construct of social theories. Wallace’s (1971) ‘wheel of science’ aptly depicts this alternation.

Creswell (1994) draws on a number of authors, including the work of Guba and Lincoln (1988), to delineate the assumptions of the two paradigms. He identifies five sets of assumptions against which differing traditions of inquiries, even within a qualitative inquiry, could be evaluated. These assumptions are related to the nature of reality (the ontology issue), the relationship of the researcher to that being researched (the epistemological issue), the role of values in a study (the axiological issue), the choice of language in research (the rhetorical issue), and the process of research (the methodological issue). Table 4.1 (page 203) depicts the contrasting assumptions of the two paradigms. There has historically been a correlation between the purpose of the research (whether it is aimed at theory verification or theory generation) and the approach used in the research (quantitative or qualitative). Quantitative research has typically been more directed at theory verification, while qualitative research has typically been more concerned with theory generation. While that correlation is historically valid, it is by no means perfect, and there is no necessary connection between purpose and approach (Punch, 1998). That is, quantitative research can be used for theory generation (as well as for verification) and qualitative research can be used for theory verification (as well as for
generation), as pointed out by various writers (for example, Hammersley, 1992; Brewer and Hunter, 1989). However, while the connection is not necessary, it is nonetheless likely that theory generation research will more often be qualitative. Research directed at theory generation is more likely when a new area is being studied, and exploration of that new area is more likely to use the unstructured fieldwork techniques of qualitative research (Punch, 1998:17).

Whether description or explanation is the appropriate purpose for a research depends on the topic, on the context and practical circumstances of the research, and especially on how much theorizing and knowledge exist in the area. Theory generation research was given new legitimacy in social science by the development of grounded theory. Glaser and Strauss (1967:10) stated this clearly in their original grounded theory publication:

*Verification is the keynote of current sociology. Some three decades ago, it was felt that we had plenty of theories but few confirmations of them – a position made very feasible by the greatly increased sophistication of quantitative methods. As this shift in emphasis took hold, the discovery of new theories became slighted and, at some universities, virtually neglected.*

Glaser and Strauss argued that the emphasis on verification of existing theories kept researchers from investigating new problems areas, prevented them from acknowledging the necessarily exploratory nature of much of their work, encouraged instead the inappropriate use of verificational logic and rhetoric, and discouraged the development and use of systematic empirical procedures for generating as well as testing theories (Brewer and Hunter, 1989). This gives us a useful general guideline for when each purpose might be appropriate. When an area has lots of unverified theories, an emphasis on theory verification research seems a good thing. On the other hand, when an area is
lacking in appropriate theories, it is time for the emphasis to shift to theory generation (Punch, 1998).

Table 4.1  Assumptions of the two key paradigms

<table>
<thead>
<tr>
<th>Assumption</th>
<th>Question</th>
<th>Quantitative (Positivist)</th>
<th>Qualitative (Interpretivist)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ontological</td>
<td>What is the nature of reality</td>
<td>Reality is objective and singular, apart from the researcher</td>
<td>Reality is subjective and multiple as seen by participants in a study.</td>
</tr>
<tr>
<td>Epistemological</td>
<td>What is the relationship of the researcher to that researched?</td>
<td>Researcher is independent from that being researched</td>
<td>Researcher interacts with that being researched</td>
</tr>
<tr>
<td>Axiological</td>
<td>What is the role of values?</td>
<td>Value free and unbiased</td>
<td>Value laden and biased</td>
</tr>
<tr>
<td>Rhetorical</td>
<td>What is the language of research?</td>
<td>Formal Based on set definitions Impersonal voice Use of accepted quantitative words</td>
<td>Informal Evolving decisions Personal voice Use of accepted qualitative words</td>
</tr>
<tr>
<td>Methodological</td>
<td>What is the process of research?</td>
<td>Deductive process Cause and effect Static design categories isolated before study Context free Generalizations leading to prediction, explanation and understanding Accurate and reliable through validity and reliability</td>
<td>Inductive process Mutual simultaneous shaping of factors Emerging design categories identified during research process Context bound Patterns, theories developed for understanding Accurate and reliable through verification</td>
</tr>
</tbody>
</table>

Source: Adapted from Creswell (1994:5).
4.2.1 **Strengths and weaknesses of the positivistic paradigm**

The philosopher, Auguste Comte (Giddens 1974) was the first to coin the term positivism. Comte had envisaged that sociology was to be the apex of positivism: “the science of man completed the historical evolution of the hierarchy of the scientific disciplines, and for the first time made possible an adequate understanding of that evolution” (Giddens, 1974). Later Emile Durkheim was to vehemently defend Comte’s traditional version of positivism which was under attack; a version that accentuated the supremacy of logic and scientific knowledge as the paradigm of all valid knowledge, and the solution to the major practical problems facing mankind (Giddens, 1974). Durkheim understood sociology to be the objective study of ‘social facts’ were to be considered as ‘things’ (Checkland 1999:268). In an occasion dubbed as the ‘positivist dispute’ in German Sociology in 1960, positivism was used in a derogatory sense by the Frankfurt School to describe the assertions of Karl Popper that science offers the best method in the pursuit of objective knowledge (Giddens 1974; Checkland 1999), a tag that Popper resents (Popper 1994).

Popper describes the method of science not in the traditional sense, but as the “method of bold conjectures (hypothesis) and ingenious and severe attempts to refute them (falsification)” (Checkland 1999:57). Popper’s idea of pursuing objective knowledge through falsification is part of a broader tradition in ‘evolutionary epistemology’ or incrementalism of which he is the revered proponent as evident in his numerous classical works (Popper 1957, 1963a, 1963b, 1980, 1972, 1977, 1994). He argues that sociologists must adopt the procedural rules, standards and intellectual conventions of science and
embrace the point that there are no such things as ‘truth’ other than conjectural, relative truth (Popper 1957). To summarize, the basic tenet of positivism is that a science of society, comparable with natural science, is both possible and desirable. This proposition rests on three assertions: that the methodological procedures of natural science may be directly adapted to the study of human social actions, that the outcome of research in the social sciences will take the form of causal laws, and that the results of social research are value free (Giddens 1974). The goal is to explain social ‘regularities’, ‘rates’, ‘associations’, ‘outcomes’, ‘patterns’ through an explanatory formula: “regularity = mechanism + context” (Pawson and Tilley 1997:71). Methodologies that avail themselves to this paradigm include cross-sectional studies, experimental studies, longitudinal studies and surveys.

The importance of positivism, particularly logical positivist explanation, is recognized as one of the most viable approaches available to explain a phenomenon. In the more recent evaluation research, logical positivism clearly forms the basis of ‘realistic evaluation’ or ‘scientific realism’ where programmes and policies demand realistic evaluation results (Pawson and Tilley 1997). Pawson et al. (1997) suggest that taking sides in the ‘paradigm wars’ maybe tautological. Babbie (1998) argues the place for positivism in social research and points out the interacting links between positivism and phenomenology by noting that “every observation is qualitative at the outset” (Babbie, 1998). However, the fact that “qualitative data seem richer in meaning is partly a function of ambiguity” (Babbie, 1998). Babbie further argues that in social science, unlike in science, paradigms cannot be true or false, or even supplanted as in the Kuhnian tradition; as ways of
looking, they can only be more or less useful (Babbie, 1998). R. Hussey et al. (1997) also point out the popularity of positivism in business research because the data used is highly specific and precise. However, the authors also point out that both paradigms should be viewed as being at the extremes of a continuum.

The strengths of positivism notwithstanding, there are weaknesses that undermine its usefulness to the subject matter of this research: that is strategic alliances in Malaysia. At the outset, the positivist ontological position vis-à-vis reality, namely that social reality exists independently of the researcher, is not useful for this exploratory research as it seeks an understanding (Schutz 1954) of the alliance managers’ varying perception and meaning of the alliance partner selection process. Objects, people, situations, and events do not, in themselves, possess meaning; meaning is conferred on these elements by and via human interaction (Berg 2001:9). Similarly, the positivist position on the epistemological question of ‘How do we obtain knowledge of that reality?’ is inappropriate, because it postulates that the act of investigating such a reality would have no effect on that reality. Therefore, its concomitant methodologies designed to establish fixed laws in a sequence of linear cause and effect is also less useful except in situations where triangulation is to be maximized.

In essence, the main criticism of the positivistic paradigm include the points that it is impossible to treat people as being separate from the social contexts and they cannot be understood without capturing their perceptions of their own activities (J. Hussey et al. 1997); a strictly structured research design imposes certain constraints on the results and
may ignore more relevant findings; because researchers bring their own interests and values to the research, they cannot be objective and they also become part of what they observe; and capturing complex phenomena in a single measure such as statistical variables can be misleading.

### 4.2.2 Strengths and weaknesses of the interpretivist paradigm

Interpretivism is the generic paradigm of the social sciences (Giddens 1979) comprising variants from phenomenological sociology, philosophical hermeneutics through to social constructionism. Interpretivism developed in reaction to the dominance of positivism in the 19th and 20th centuries, arguing that there were fundamental differences between the natural and human sciences. Defenders of interpretivism argued that the basis of distinction stemmed from the different aims of explanation versus understanding (Schwandt 2000). Max Weber, a key proponent of this paradigm, argued that the social sciences seek to understand social phenomena in terms of meaningful categories of human experience and therefore, the ‘causal functional’ approach of the natural sciences is not applicable in social inquiry (Schutz 1954). Weber recognized the nature of subjectivity in studying humans, and noted that whilst physical systems cannot react to predictions made about them, social systems can. He pointed out that the self-consciousness of human beings and the freedom of choice, which that consciousness entails, implies that an observer can never obtain an up to date account of the subject’s state of mind which would be correct for the agent to accept (Checkland 1999:70). The social scientist can only reveal trends rather than laws and that (s)he will be reduced to studying not exactly social reality but only the logic of situations, producing findings of
that kind: ‘In situation A, a likely outcome is B’ without any guarantee that this will hold in any particular situation (Checkland 1999:71). Weber’s interpretive social science based on the ‘attribution of meaning’ is closely related to Edmund Husserl’s (1999) work on phenomenology in the early 20th century.

In sum, the basic premise of the interpretivist paradigm is that, unlike the physical sciences which deal with objects external to the researcher, the social sciences deal with action and behaviour which are generated from within the human mind (J. Hussey et al. 1997). Moreover, there is a clear interrelationship between the investigator and what is being researched. Verifying what actually exists in the social and human world depends on the researcher’s interpretation. According to Weber, any interpretative analysis of subjective meanings depends upon ‘empirical rules’ hence the development of his methodological tools, notably the typology of ‘rational action’ and the ‘ideal type’ (Giddens 1974:7). Methodologies most appropriate here include action research, case studies, ethnography, feminist perspectives, grounded theory, hermeneutics, and participatory enquiry.

Interpretivism is the most relevant paradigm for this research because in seeking to solve the research problem stated in Chapter one, this author sought to ascertain what the general trend is in terms of international strategic alliance partner selection practice and then to interpret what the envisaged goals were in Malaysia alliances and what the actual outcome was. Because alliance management involves senior executives and operational staff at many levels within partnering organizations, any methodology adopted to seek an
understanding of the different perceptions must undoubtedly be within the interpretive paradigm, whatever that methodology might be. The fact that alliance partner selection is a dynamic process or lived experience rather than a static reality to be captured using snapshot methodologies supports this. Strauss and Corbin’s position (1990:1) that qualitative methods are useful for unraveling and understanding what lies behind any phenomenon about which little is known is also supportive. Maxwell (1996:17-18) affirms this, noting that qualitative studies are useful for understanding meaning for participants in a study, the context within which the participants act, deciphering unanticipated phenomena and influences, generating new theories, understanding the process by which events and actions take place, and even developing causal explanations contrary to the traditional view.

There are, however, a number of weaknesses in this paradigm. The first, which is illustrative of the politics of paradigms, is the accusation by those inclined to quantitative methods that qualitative research is soft science and only exploratory, or subjective (Denzin and Lincoln 1994:7). Such criticisms are tautological since they fail to address the fundamental concerns raised within this paradigm vis-à-vis the ‘fuzzy problem situation’ in social and managerial systems (Checkland 1985a:765). The point is also well put by Borman, Lecompte, and Goetz (1986:51, cited in Berg 2001:10): criticism of qualitative research arises out of an ‘erroneous equation of the term ‘empirical’ with quantification, rather than with any real defect in the qualitative paradigm itself’. Moreover, the positivist paradigm, which is based on linear methodologies, is less useful for understanding complex/chaotic situations arising from the ‘Lorenz attractor’ or
‘Butterfly effect’ first raised by Edward Lorenz’s 1961 computer weather model (Gleick 1987:23). Indeed, as Drucker (1974) points out, management is a practice rather than a science. Even proponents of the unity of science such as (Popper 1957), who assume that facts can be gathered in the social sciences in much the same way as in natural sciences, have unfortunately devoted little attention to the particular problems of social science (Checkland 1999:265-266). Overall, it must be accepted that “qualitative research is legitimate in its own right and does not need to be compared to achieve respectability” (Creswell 1998:75-76). What is actually happening is that the various paradigms are beginning to ‘interbreed’ and inform one another’s arguments (Lincoln and Guba 2000:164).

Nevertheless, there are genuine difficulties associated with qualitative research which include the time required to undertake qualitative research and the costs involved. Problems may also emerge in the analysis and interpretation of data, there is often difficulty in achieving validity and reliability in qualitative research, and there are ethical issues arising from the researcher’s intrusion into the ‘personal sphere’ of those being researched (Burns 1995:13; Easterby-Smith, Thorpe and Lowe 1991:32; Sarantakos 1998:52).

4.2.3 Phenomenology

Phenomenology is closely aligned to the interpretive paradigm. A phenomenological study revolves around the meaning of the lived experiences for participants in a study about a phenomenon. This approach explores the structures of consciousness in human
experiences (Polkinghorne 1989, cited in Creswell 1998). Researchers seek the essential, invariant structure (or essence) or the central underlying meaning of the experiences, and emphasize the intentionality of consciousness based on memory, image and meaning (Creswell 1998:52). This lines of inquiry originated from the questions Husserl (1999:41) posed in the early 20th century about the phenomenology of knowledge: “what is essentially contained and grounded in such a phenomena; from what factors are they constructed; what possibilities of combination do they found when they are taken essentially and as purely immanent; and what general relations flow from them?” In short, “what is the structure and essence of this experience for these people?” (Patton, 1990:69). For Husserl, consciousness is always directed towards an object: “there is an indissoluble unity between the conscious mind and that of which it is conscious” (Stewart and Mickunas, 1974:9). Once the problem of knowledge is solved then there are two additional problems for Husserl (1999:3): the first is one of ‘transcendence’ -how can consciousness reach out beyond itself and ‘make contact’ with an object wholly external to it? The second is ‘correspondence’ – how can we be assured of an agreement between the act of knowing and the object known? Husserl solves the first part of the problem through his theory of intentionality, an account of how acts of consciousness refer to objects, and the second problem by developing a phenomenological version of the correspondence relation between act and object (Husserl 1999:3-4).

Husserl was at great pains to differentiate his version of phenomenology from the Hegelian tradition which reduced reality to ideals. The central concept in Husserl’s phenomenology is ‘consciousness’ or the ‘presence of appearances’: an appearance is
anything of which one is conscious (Stewart et al. 1974:3). Husserl rejected the positivist tendency to treat consciousness as an empirical phenomenon to be investigated by quantitative methods. Stewart et al. (1974:4) point out that quantitative methods are inappropriate in this regard for two reasons: first, consciousness itself is not an object among other objects in nature; and second, there are conscious phenomena which cannot be dealt with adequately by means of experimental science. This demonstrate that phenomenology does not limit its investigations only to those realities which are objective in a materialistic sense because it makes no assumptions, as does positivism, about what is, or not, real. At a philosophical level, phenomenology seeks a return to the traditional tasks of philosophy–one which rises above the proposition that all reality is capable of being investigated by empirical means, the search for a philosophy without presuppositions, the intentionality of consciousness, and to refute the subject-object dichotomy (Stewart et al. 1974:5).

Phenomenology is important for this research because its method of approach is rooted in the notion of the lived-world. The researcher acts in the social and human world rather than observes it as a disinterested scientist. It follows that the social sciences deal not with the reality of the world but rather with human relationships within this world. Thus inter-subjective relationships and the question of knowledge of the other person are important in phenomenology (Stewart et al. 1974:126-127). Phenomenological data analysis proceeds by analyzing specific statements and themes, and a search for all possible meanings. The researcher also sets aside all ontological prejudgments through bracketing his or her experiences and relying on intuition, imagination and universal
structures to obtain a picture of the experience (Creswell 1998). The data may be collected using case studies (Perry 1994). Notwithstanding the strengths of the phenomenological approach to research, there are challenges. A phenomenological study may be challenged if the researcher does not possess a solid grounding in the philosophical precepts of phenomenology; participants in a study are not carefully chosen to reveal their experiences of the phenomenon; the personal experiences of the researcher are not adequately bracketed; and the researcher gives little thought to how, and in what way, his or her personal experiences will be brought into the study (Creswell 1998). The author is mindful of these limitations and has attempted to take them into account in the actual study. There is also an air of realism to this research on strategic alliances in Malaysia where time, resources and space have imposed limitations on the research methodology. Use of soft system methodology (SSM) to guide the case study research and in the data analyses indicated the need for realism. Using case studies to generate case base knowledge claims also has parallels with the epistemology of realism in alliance management studies (Easton 1998:73). Even phenomenology is inherently realistic. As Pintrich and Schunk (1996:86, cited in Leedy 1997:161) say: “Individual’s personal and subjective self-perceptions are important … regardless of the ‘accuracy’ of the perceptions …”. Moreover, Patton (1990:69) agrees that the “subjective experience incorporates the objective thing and a person’s reality”.

Realism is concerned with searching for an understanding of a common reality for many (Perry, Riege and Brown 1998). This reality, although it may only be approximate to the unobservable, is justified by optimizing the causal account of all evidence under specified
circumstances. For Pawson et al. (1997), to be realistic is to acknowledge that there is no universal logic of evaluation, no absolute science of valuing, no general warranty of decision making applicable to all judgements. Thus a basic realist formula in the post positivist sense is: mechanism + context = outcome. The aim is to generate incremental knowledge for programme implementation through adaptive learning and accommodation rather than solutions (Popper 1963a, 1980; Etzioni 1968; Dror 1983; Hogwood and Gun 1984; Checkland 1985a, b, 1999; Vickers 1965; Churchman 1971). That there is no absolute form of human knowledge in modern science (Popper 1980; Kuhn 1970, 1993) is relevant here (see also Bloor 1991). In summary, there is ample justification for the application of a largely qualitative methodology for this project. The next section will present the arguments for the selection of a case study approach.

4.2.4 Case Study method

The justifications for choosing the case study method derive from the interpretive paradigm, the broad phenomenological nature and its realistic underpinnings, the exploratory nature of the research problem (Chapter one) and the research questions derived from the literature review (Chapter three). Although some methodologists prefer to avoid the influence of the paradigmatic debate on the choice of methodology, opting to begin only with the type of evidence to be collected, hence proper definition of the research questions (Yin 1994:7; Platt 1992:46; Stake 2000:435; Timney 1992), an awareness of the strengths and weaknesses of the positivist and phenomenological paradigms and their influence on the choice of methodology has a beneficial effect on knowledge development (Perry 1995:21). To ensure that the choice of methodology is
defensible the author has considered the importance of paradigm choice (Creswell 1994; 1998, Berg 2001; Easton 1998; Perry and Coote 1994) as well as the nature of the research problem, and the logic underpinning the design and questions, particularly the ‘how’ and ‘why’ questions (Yin 1994:1,7; Platt 1992:46; Stake 2000:435).

Thus, the author believes that a defensible methodology should be based on the justification of the paradigm (interpretivism), the general methodology most consistent with that paradigm (phenomenology and realism), and the specific methodology (case studies and soft systems methodology) most relevant to the field under study (the strategic alliance partner selection process and the alliance manager’s construction of meanings of this process which remains unexplored in Malaysia). The case study method is most useful for studying a phenomenon that cannot be detached from its contextual conditions. Yin (1994:13) provides the most authoritative definition of this method, “a case study is an empirical inquiry that investigates a contemporary phenomenon within its real life context, especially when the boundaries between phenomenon and context are not clearly evident”. In addition, a case study is able to cope with the technically distinctive situation that has numerous variables of interest than data points, relies on multiple sources of evidence (triangulation) and is guided by prior development of theoretical propositions in its data collection and analysis (Yin, 1994). Case study research includes both single and multiple case studies, multi sited or within site, focus on a case or on an issue (intrinsic, instrumental) and can include quantitative evidence (Yin 1994; Stake 1995).
In choosing a case to study, purposeful sampling may be used. Data analysis may take the form of a holistic analysis of the entire case or bounded system, or an embedded analysis of a specific aspect of the case. From the data analysis, a detailed description of the case emerges, themes are analysed and the researcher makes an interpretation or assertions about the case. According to Mintzberg (1979:587) it is the responsibility of the researcher to abstract from the particular to the general and to develop concepts from his/her measurements in the field; the researcher “shirks” his/her responsibility when this task is left to the manager of an organization. Where there are multiple cases, a detailed description of each case and the themes within must first be provided (within case analysis), followed by a thematic analysis across the cases (cross case analysis), as well as an interpretation of the meaning of the case (Yin 1994; Creswell 1998). In the final interpretative phase, the “lessons learned” from the case are reported by the researcher (Lincoln and Guba 1985, cited in Creswell 1998). In terms of the generalisability of the findings, Yin (1994:10) notes that case studies, like experiments, are generalisable only to theoretical propositions rather than to populations. Like the experiment, the case study does not represent a ‘sample’, and the researcher’s goal is to expand and generalize theories (analytical generalization) and not enumerate frequencies (statistical generalization).

The utility of the case study method has been appreciated in a wide range of fields. It is a method that is being extensively used in social science research and practice oriented fields such as management and even evaluation research, formerly the province of surveys and quasi experiments (Yin 1994). The method is also a popular mode for Phd
dissertation research in all these disciplines and fields (Yin 1994; Perry 1995; Timney 1992; Adams and White 1994; Martinsuo 2001; de Weerd Nederhof 2001). Case studies have been useful for theory building (Eisenhardt 1989; Parkhe 1993a; Maxwell 1996) and are particularly useful for studying strategic alliances (Easton 1998; Lawrence and Ul-Haq 1998; Parkhe 1993a), as well as general management and marketing (Milliken 2001). In his critical appraisal of international joint venture research, Parkhe (1993) argued that certain core questions at the heart of the international joint venture (IJV) relationship have been overlooked by studies which are methodologically impeccable but theoretically weak. In particular, he reasoned that prevailing norms emphasizing sophisticated analyses of data drawn from mail surveys and secondary sources are fundamentally ill suited for dealing with the inherent “messiness” of cross border cooperative alliances.

Parkhe proposed instead a research program geared towards a deeper understanding of the mechanisms of interfirm cooperation and motivated by goals of theory development. He further added that the “maximally efficient procedure” for advancing IJV theory begins with the iterative dialogue of ideas and evidence that is characteristic of the multiple case study research method. In contrast with the “hard” or quantitative approaches used in previous partner selection research, and given the “soft” nature of this aspect of inter firm cooperation, the primary emphasis in this study was on the collection of qualitative data (Parkhe, 1993). This choice was also consistent with other research investigating international joint ventures in emerging economies (Steensma and Lyles, 2000). Various tactics were employed to establish the quality of the research. These
included, but were not limited to, the incorporation of multiple sources of evidence at a site to improve construct validity, pattern matching analysis (relating to internal validity), an experimental like replication logic to guide sampling decisions (relating to external validity), and the use of replicable protocol when conducting field work (improving the reliability of the study) (Parkhe, 1993; Yin 1993).

Part of the reason for the paucity of research in emerging economies is that data and methodological issues plague strategy researchers in these countries. For example, theories promulgated for developed economies may not be appropriate for emerging economies (Hoskisson et al. 2000). On the empirical side, researchers face sampling and data collection problems, difficulties in measuring firm performance and a variety of timing issues. Moreover, emerging economies are not a homogenous or clearly identifiable and recognizable group. First, theory development in emerging economies can be problematic. There are major issues to be addressed with respect to the replication of tests of hypotheses and research instruments developed and used in developed countries in an emerging market context. Research designs may be misspecified as essential conceptual differences between developed and emerging economies are not taken into account. Eisenhardt (1989) provided a road map to developing theories from case studies that may be appropriate in an emerging market context. Second, obtaining a representative sample of enterprises through conventional sampling technique can pose problems in emerging economies. For example, there was no single directory or readily available list of international strategic alliances or joint ventures in Malaysia. The problem of identifying random samples suggests the importance of corroborating findings
between studies. However, it should be noted that there is always the danger that a series of studies may all be biased if they face the same sampling problems. A further problem with replication arises from the likelihood that surveys will take place at different times (Hoskisson et al. 2000). Mail questionnaires also suffer from well known general problems in which very low response rates are achieved.

Ragayah (1999) in her research on Malaysian foreign investments indicated that, while a proper questionnaire was developed to elicit information that might be able to systematically test some of the established theories, the responses were quite disappointing. Respondents particularly steered away from any question related to financial matters, an experience also reported by Lecraw (1981) and Chia (1996), and provide only those already published, normally in the firms’ annual reports. As a result, the number of respondents is too small to form any systematic generalizations of the results and belie the enormous effort put into obtaining and executing the interviews. The absence of a culture involving disinterested social scientists may make for difficulties in establishing trust between respondent and researcher. Analysis of strategy issues frequently requires the gathering of subjective information from directors of enterprises. The potential problems relating to the reliability of directors’ responses to requests to assign scores to batteries of questions relating to strategy are also well known (Hoskisson et al. 2000). As such, face to face interviews may be a key means of gaining access to data sources (Lee and Miller, 1999). More sophisticated case methodologies were adopted by Collis (1991) and Hitt et al. (1998), who used detailed field based archival and interview data to develop in depth case studies. As well as the need, expressed above,
for further careful theory building, there is an important need for development of a case study approach in research in emerging economies (Cho, Kim and Rhee, 1998). Overall, the case study method is the most useful for the study of the role of the alliance manager in the strategic alliance partner selection processes in Malaysia because it has the methodological features that are suitable for capturing the dynamism of alliances and the connectedness among and between actors in alliances where the boundaries between the phenomenon and the context are not clearly evident (Yin 1994, Easton 1998). More so, it is the epistemological and ontological justification for using case studies based upon realism that further strengthens the argument for its use.

4.3 Research procedures: data collection strategies

In this section, an overview of the selection procedures for the case studies used in the thesis and justifications for the adoption of the soft system methodology to complement the case study method is in order.

4.3.1 Selection of case studies

A total of eighteen case studies were involved in the research undertaken in Malaysia during the period December 2004 to April 2005. To assess the empirical veracity of the partner selection process in Malaysia, the formation of eighteen Malaysian-foreign strategic alliances were analyzed in some depth. Since the focus of the study was on the partner selection process, it was compulsory that those performing these functions in the partnering organizations be interviewed. However, where possible other actors such as operational personnel were also included in the interview schedule to complement
secondary sources in triangulating data. In-depth interviews were guided by a case study protocol that the author developed to enable consistency and data reliability across cases in the context of a holistic multiple case design. Using this protocol as a guide was useful since the aim was to derive an analytical model for alliance partner selection in Malaysia. The protocol was optimized by a sense of the research environment in order to clarify answers to the three main research questions outlined in Chapter three, which in turn seek to solve the research problem stated in Chapter one. The case study protocol offers the benefit of a set of specified rules to the researcher investigating phenomena that are often messy in the social and human world (Yin 1994). Although the protocol helps the researcher avoid the problems of a poorly designed research process, he is not necessarily restricted to the guide questions. Here the author is endeavoring to discover and understand the respondent’s own rich meanings and subjective perceptions as well as the realistic context of the alliance from an alliance manager’s perspective.

The sample case study protocol in Appendix 2 contains copies of:

- A letter to the managing director or senior executives explaining the nature of the study and seeking permission to use their respective alliances as a case in the study
- An introductory letter introducing the purpose of the study and author to the identified personnel who, in most cases, was also a senior executive responsible for overseeing the alliance in addition to other duties
- Consent form to be signed by each participant
- An interview schedule profiling the participant and organization
This research project used a semi structured interview as the principal data gathering tool. Qualitative techniques based on interviews, as were conducted, are well validated (Cavana, Delahaye & Sekaran 2001; Denzin & Lincoln 1994; Eisenhardt 1989; Gilchrist 1992; Minichello et al. 1995; Zikmund 1997). Minichello et al (1995:101) believe indepth interviews, including semi structured interviews, are particularly appropriate for theory building methodologies as is the case with this study.

4.3.2 Checkland’s soft system methodology

The case study protocol that guided in depth interviews was designed along Yin’s (1994) work on case study research and the systems approach. Taped interviews and written notes were then written out and corroborated with secondary documents collected in the field. The data analysis was then modeled using Checkland’s (1999) soft system methodology (SSM) defined as a system based methodology for making sense of real world problems in which known to be desirable ends cannot be taken as given.

SSM, unlike the ‘hard’ approach to problem solving based on a typical goal seeking, static input output model, accepts irrationality and is characterized by subjectivity, a qualitative approach using action research, systemic methodologies, a continuing learning or inquiring process, and accommodation of differing world views. It is interpretational in nature and therefore complements the case study approach in seeking to understand ‘fuzzy problem situations’ in social and managerial systems. According to Checkland (1985:765):

*The ‘soft’ tradition does not regard goal seeking as an adequate model for much of what goes on in human affairs; it does not assume that the rich complexity of the world*
can be captured in systemic models, and hence regards system models produced within the ‘hard’ tradition not as ‘models of X’ but only as ‘models of the logic of X’. Hence the ‘soft’ tradition regards system models as models relevant to arguing about the world, not models of the world; this leads to ‘learning’ replacing ‘optimizing’ or ‘satisfying’; this tradition talks the language of ‘issues’ and ‘accommodations’ rather than ‘solutions’.

Checkland’s main contribution to systems thinking is in the expression of human problem situations and in root definitions of relevant human activity systems using the CATWOE model as described in Figure 4.3. Defining root definitions following the CATWOE elements has proved popular in action research. The underlying principle here is a notion of criticism which goes beyond Karl Popper’s idea of falsification or critical rationalism whereby in social affairs, unlike in natural science, truth cannot be established according to whether the hypothesis withstands falsification (Flood and Jackson 1991). Instead, people hold different viewpoints of which all are neither right nor wrong. Therefore, the critical intent of the ‘soft’ tradition is to unravel these different conceptions of reality, following Weber’s ‘attribution of meaning’, Husserl’s idea of ‘intentionality’ in the phenomenology analysis and Dilthey’s ‘hermeneutic circle’ as to what is observed by human actors. The success of SSM in real situations, according to Checkland (1999:283-284), is its ability to grapple with ‘social reality’ defined as:

The ever changing outcome of the social process in which human beings, the product of their genetic inheritance and previous experiences, continually negotiate and renegotiate with others their perceptions and interpretations of the world outside themselves.

Figure 4.3 expresses the general shape of the SSM methodology and explains the mnemonic CATWOE. Also important, in the context of an increasingly uncertain global business environment, is Checkland’s (1985a, 1985b) incorporation into ‘soft’ systems methodology of Sir Geoffrey Vickers’ (1965) concept of an ‘appreciative system’,
entailing relationship building and learning as opposed to the goal seeking model of the hard tradition, as well as Churchman’s (1971) ‘inquiring systems’. Continuous learning in business networks is crucial to their successful management. SSM was used to build up the richest possible picture of the ‘real world’ situation.

Figure 4.3  A sketch of Soft Systems Methodology

CATWOE:
C (customers)  Who would be victims or beneficiaries of this system were it to exist?
A (actors)  Who would carry out the activities of this system?
T (transformation process)  What input is transformed into what output by this system?
W (Weltanschauung)  What image of the world makes this system meaningful?
O (owner)  Who could abolish this system?
E (environmental constraints)  What external constraints does this system take as given?

Source: Checkland (1999).
4.3.3 Case study selection process-justification of the sample selection

Purpose sampling has been adopted for this research. This is because qualitative inquiry typically focuses in depth on relatively small samples specifically chosen for certain features, unlike quantitative methods which depend on larger samples selected randomly (Patton 1990). The logic and power of purposeful sampling lie in selecting information rich cases for in-depth study. The researcher is advised to select information-rich cases from which much can be learned about issues central to the purpose of the research (Patton 1990). The selected information-rich cases should illuminate the questions under study and hence solve the key research problem. Whilst different purposeful sampling strategies may be considered, such as theory-based sampling or purposeful random sampling (Miles and Huberman 1994:28), ultimately the sampling strategy must be selected to suit the purpose of the study, the resources available, the questions being posed and the constraints (Patton 1990). This point is also relevant for determining sample size.

A key feature of this study’s research design is the use of multiple cases and data analysis based on comparing the findings of the individual cases. Individual cases are selected for independent investigation and it is the conclusions, based on each individual case, that are considered to be the information needing replication by subsequent cases (Parkhe 1993). In case study research, sampling is purposive, rather than random. Following an experiment like replication logic, cases are selected from a specified population for theoretical rather than statistical reasons (Eisenhardt, 1989; Yin 1989). Subsequent cases
are selected to extend the emerging theory to a broad range of organizations and this provides the confidence that the emerging theory is generic (Miles and Huberman, 1994).

A referral sampling technique is appropriate when research is concerned with a small, specialized population of people who are knowledgeable about the topic (Aaker and Day 1990; Patton 1990). A key issue in the referral sampling technique is to be careful in the selection process of those who are able to refer an interviewee. Miles and Huberman (1994) stress that opportunistic referral and other kinds of intensity type sampling commonly used in qualitative research are extremely beneficial to inductive research and help in theory building and analysis. Referral sampling typically identifies cases of interest from people who know people who know what cases, are information rich. Others (Tesch, 1990; Patton, 2002) suggest that samples in qualitative studies are usually not wholly pre-specified, but can evolve once fieldwork begins. Initial choices of informants lead you to similar and different ones; observing one class of events invites comparison with another; and understanding one key relationship in the setting reveals facets to be studied in others. This type of sampling is an approach for locating information rich key informants or critical cases. As mentioned above the process usually begins by asking well suited people “who have access to potential research subjects” (Tesch, 1990, p.8). By asking a number of people, who else to talk with, the known population gets bigger and bigger as you accumulate knowledge on new information rich cases.
Patton (1987, 2002) cites seminal work conducted by various business gurus that utilized this sampling technique. The best known ones were the (1) Peters and Waterman (1992) study *In Search of Excellence*, which used this technique, asking a broad group of knowledgeable people to identify well run companies; and (2) Rosabeth Moss Kanter’s (1983) study of innovation reported in *The Change Masters*, which focused on 10 core case studies of the “most innovative” companies. Kanter began by asking corporate experts for candidate companies to study. These nominations then snowballed as she broadened her inquiry, and then converged into a small number of different expert informants. Further, Paton (2002) highlights the advantages of purposeful sampling as the respondents selected are based on their being “information rich” and “illuminative”. Hence, these respondents offer useful manifestations of the phenomenon of interest. Unlike quantitative methods, sampling then is aimed at insight about the phenomenon, not empirical generalization from a sample of the population. The logic and the power of purposeful sampling derives its greatest strength from the emphasis of it leading to an in depth understanding. Hence, as qualitative research is information rich, one can glean a great deal of information about issues of central importance to the purpose of the research.

The ideal sample size in qualitative research remains unresolved, and is never expected o be resolved because the researcher does not seek statistical generalizations but theoretical generalizations (Yin 1994; Miles et al. 1994). However, confidence in the findings can be optimized through sampling strategies such as maximum variation, extreme and deviant cases, with-in case sampling, multiple-case sampling and theoretical/literal replication
strategy (Creswell 1998; Miles et al, 1994). Nevertheless, although the findings may be optimized, the issue of generalisability does not change. Miles et al. (1994:29) clarifies that: “[w]e are generalizing from one case to the next on the basis of a match to the underlying theory, not to a larger universe. The choice of cases usually is made on conceptual grounds, not on representative grounds”.

Strauss and Corbin (1998) make a point that qualitative researchers usually work with small samples of people, nested in their context and studied in depth; unlike quantitative researchers, who aim for larger numbers of context stripped cases and seek statistical significance. In that research of Strauss and Corbin (1998), 20 in depth interviews were conducted for the study of online consumer behavior. The selection of the optimal sample size is a question that most researchers are perplexed about, and this is cited in the writings of most authors in qualitative research methods (Patton, 1990). According to Patton (1990), selecting the optimal sample size for the interviews depends on what is to be found and why and how the findings are to be applied.

Further on this topic, Dick (1990) suggested that the sample size should be 1% of a target population of up to 200 and, as a minimum, the sample size should not be less than 12. What comes through with the research is that there are no rules for sample size in a qualitative inquiry. It all depends on what you want to know, the purpose of the inquiry, what is at stake, what will be useful, what will have the credibility, and what can be done with the available time and resources (Patton 2002). Silverman (2001) also supports the
view that interviews are best suited for small samples, as in-depth questioning of the samples is the offset.

Initially a minimum of thirty was selected for this study from 1500 possible cases, excluding the pilot case as recommended by Perry (1994) for PhD research. However, only eighteen alliances have been used in the data analysis because of the time and cost constraints on the part of the researcher. This is still justifiable for this study because the eighteen cases represent 1.2 per cent of all public listed companies in Malaysia. Again, the final sample was chosen on conceptual grounds rather than with the aim of getting a representative mix of firms. In other words, by selecting a broad mix of both small and large contractual and equity strategic alliances from a number of sectors and industries, the aim was to rule out possible industry specific effects and to demonstrate that the underlying theory is generic by identifying those elements common to all partner identifications. Similarities observed across a diverse sample of strategic alliances offer a surer basis for evaluating propositions than constant elements observed in a homogenous sample of firms (Harris and Sutton, 1986; Yin, 1989).

The sample was chosen on a “purposive” sampling basis from Malaysian firms. The method of generating data may tend to restrict the findings generalisability largely to managers forming the sample (Sulaiman and Gupta, 1996). However, given the exploratory character of the study coupled with its being on a sensitive subject, this sample frame was considered appropriate so as to be able to receive reasonable number of responses needed for a meaningful analysis and derivations (Sulaiman and Gupta,
A broad representation within each business group was selected so that the classification that emerged captured their diverse nature, supporting the robustness of the classification (Jarratt, 1998; Ramaseshan and Loo, 1998; Sim and Ali, 2001). Moreover, in their study on performance and problems of international joint ventures in Malaysia (Sulaiman et al. 1999) found no significant effect of industry types as well as foreign partners towards decision making process of Malaysian firms. A similar method was utilized by Sim (2006) in his research on internationalization strategies of Malaysian and Singaporean firms.

Considering that Malaysia is a small open, but vibrant economy, and has a small market, the sample size was deemed justifiable. As Patton (1990:185) says, the validity, meaningfulness and insights derived from such studies have more to do with the information richness of the selected cases and the observational / analytical capabilities of the researcher than with the sample size. Moreover, case studies of organizations serve the purpose of systematically gathering enough information about a particular organization to allow the investigator to develop an insight into the life of that organization (Berg, 2001:233). The sample includes fifteen cases that might be considered as seeking to replicate the principles advocated in the extant literature and emulated by international alliance cases evaluated in Chapter three; and three cases of less successful alliances shown by their near foreclosure and breakdown in mutual trust. To achieve variation in management experience, fifteen of the cases were more than ten years old (the oldest being eighteen years), one was eight years old and two were about two years old.
4.3.4 Selection of unit of analysis

As with case selection, clearly delineating the unit(s) of analysis is important to avoid over collection. A study that contains specific propositions or questions is more likely to stay within feasible limits (Yin 1994). Units of analysis can be an individual(s), some event, an entity, decisions, programs, implementation process, or organizational change. Often defining the beginning or end points of the case is not an easy task. As a rule of thumb, the definition of the unit of analysis and therefore of the case relates to the way the initial research questions have been defined (Yin 1994:22). Where the unit of analysis is a small group the persons to be included within the group must be distinguished from those outside it. The same must also be done with events in a specific geographic area. And for any unit of analysis that might be chosen, specific time boundaries are needed to define the beginning and end of the case to be studied.

The unit of analysis of this study is drawn from a pool of General Managers (GM) and directors within the various sectors of Malaysian businesses. The requirements of this task may be actually performed by alliance coordinators or liaison officers. Their job is to coordinate amongst partners and undertake all the necessary management tasks. Although the alliance manager appears to represent an ‘embedded’ rather than ‘holistic’ unit of analysis, the constraints exerted by an alliance’s business environment requires understanding. This has been accounted for by specific questions entailed in the case study protocol (Appendix 2). An embedded unit is amenable to in-depth examination of a specific phenomenon in operational detail, in contrast to holistic designs with no logical sub-units giving rise to abstract analysis and lacking clear measures or data (Yin
1994:42). However, embedded designs also have major weaknesses, particularly when the case study focuses on the sub-unit level and fails to return to the larger unit of analysis (Yin 1994:44). Therefore, for this study the environmental context of the alliance manager is pertinent to alliance partner selection outcome, as the business environment in developing countries is highly volatile as noted in Chapter two.

4.3.5 Case studies: interviews, data collection

The author initially made contact with some of the organizations known to the author to request permission to study their alliances. Permission letters were also sent out to other possible participating organizations. The permission letters were followed up with telephone calls and field visits to obtain verbal confirmation. Names of alliance managers were obtained and wherever possible, introductory letters were delivered. At the same time agreed interview times, contact details and venues often at company premises were obtained. Agreed dates were then confirmed with participants’ personal secretaries by phone within the week. Frequently initially agreed times were cancelled due to unforeseen events affecting the participant, leaving the author to catch the participants as and when they were available. In the interview process, meticulous notes were taken complemented by tape recording where permitted. In order for data triangulation to take place (Yin 1994; Patton 1990; Miles et al. 1994) the author ensured that company documentation was requested effecting relationships.

During the interviews the author was conscious of the need to balance the extremes of possessing a predetermined theoretical framework (Yin 1994:46) on the one hand, and
having no theory to test on the other (Eisenhardt 1989:536). This experience confirms that researchers take their own assumptions into the process and that they shape their interpretation of events (Allison 1971; Strauss and Corbin 1990, 1994). The author tried to balance out these assumptions by having an open mind, sensitized by the systems conceptual framework outlined in the Chapter three and guided on by SSM to appreciate the actor’s worldview (Weltanschauung) in order to improve both explanation (Erklären) and understanding (Verstehen) of the alliance partner selection phenomenon in a developing country context. Miles et al. (1994) also advocate the use of conceptual frameworks moderated by the need to avoid over instrumentation in exploratory research. Patton (1990:69) points out that even the “subjective experience incorporates the objective thing and a person’s reality” regardless of such a perception’s validity. That researchers’ enter the research field with inherent biases is not beyond realism, what is important is that such possibilities must be acknowledged in the research report.

Gaining initial access to existing strategic alliances in Malaysia was somewhat problematic given the sensitivity of the topic as perceived by potential informants. All the firms in the study requested confidentiality as a condition of participation and are accordingly disguised. The reluctance of firms to participate in the research was strongly detected by the researchers and is a common problem of research in Asian countries (Sim and Pandian, 2003). In each case studied, approaches were made on the basis of connections or referrals made on behalf of the researcher. In addition to providing intimate access to key decision makers, these introductions played an important role in establishing a level of initial trust in the interviewer-interviewee relationship. Thus, this
approach although not suited to studies driven by goals of statistical generalization, served to improve the level of confidence in the truth value, or the internal validity of the findings.

Data collection activities were based mainly by means of semi-structured interviews with open ended questions. Newman (1994) asserts that semi structured interviews have the highest response rates of all research methods, permit the longest questionnaires and allow the interviewer a vast array of questioning techniques. Jarrat (1996) advocates a semi-structured approach to in-depth interviews that enables the researcher to cover a specific list of topic areas, with the time allocated to each topic area being left to the discretion of the interviewer. The open structure ensured that unexpected facts or attitudes were fully explored. The questions were identified by reviewing relevant literature on partnerships and identifying key issues in partnership management: criteria used in partner selection (Geringer, 1991), evolution and management of the interpartner relationship (Ring and Van de ven, 1994) and inter partner trust (Madhok, 1995). Informants were asked about the history of each alliance formed with particular attention paid to the number of potential partners identified and the reasons why each was chosen or rejected. Nevertheless, because of the time frames involved, there was a danger of missing information or biased recollections of past activities (Golden, 1997). For example, when reconstructing stories of how each investor met their alliance partner, informants commonly cast themselves as the active player in the search process. This potential hazard reinforced the need for data triangulation followed up with post
interview verification of transcripts. The data will also include direct quotations from
people about their experiences, attitudes, beliefs and thoughts (Christy and Wood, 1999).

Patton (2002, p.346) states that there are four major reasons for using semi structured
interview:

- The exact instrument used in the evaluation is available for inspection by those
  who will use the findings of the study.
- Variation among interviewers can be minimized where a number of different
  interviewers must be used.
- The interview is highly focused so that the interview time is used efficiently.
- Analysis is facilitated by making responses easy to find and compare.

In this study, only one interviewer (the researcher) was utilized, to ensure consistency.
The approach also makes the interview more systematic and helps reduce interviewer
judgment (Tesch 1990). The semi structured interview also makes data analysis easier
because it is possible to locate each respondent’s answer to the same questions rather
quickly, and to organize questions and answers that are similar (Patton, 1987). Hence, a
semi structured interview approach reduced the extent to which individual differences
and circumstances can be taken into account (Patton, 2002). Collecting data through
interviews also creates the potential for bias on the part of the interviewer. For example,
researchers may seek only those answers that agree with their original hypotheses. This
‘self fulfilling prophesy’ problem may be reduced through the implementation of good
operational definitions and research protocols (de Vaus, 2001:83). This thesis addressed
this issue through setting guidelines on the interviewing process and related questions.
The interview data was then collated and segmented through the NUD*IST qualitative computer analysis program that provided a robust analysis of the results (discussed in further details below). Within these constraints the interviews provided a powerful tool to gain insights and perspectives at the firm level. Because it is a personal and interactive form of data collection, interviews can be an effective method for eliciting information on sensitive topics (Crano and Brewer, 2002:223). Most Malaysian managers were more open to discussing sensitive issues on a one on one basis rather than providing written material. Interviews also provided the contextual and circumstantial factors behind organizational decisions and brought variables and issues to light that were not previously apparent (Hakim, 2000:36). This helped to explain why the firms acted in certain ways.

When discussing interviews as a research technique, Gillham (2000:13) points out that what people say may not be what they actually do.

The interviews ranged from 45 to 120 minutes with an average duration of around 90 minutes. Throughout the interview, interviewer applied skills in active listening, reflecting responses, paraphrasing and probing to encourage a rich and fruitful discussion and an accurate understanding of what was disclosed (Seidman 1998). All informants agreed to be taped in order to accurately record the data. Interviews were transcribed fully within five days of each visit and transcripts were then returned to informants for verification. The eighteen case studies are the formal presentations of the evidence contained in the evidentiary database.
4.3.6 Confidentiality

This study was approved by the Murdoch University’s Human Ethics Committee. A copy of the approval can be found at Appendix B. Given concerns over confidentiality on the part of participating firms, all of the participating firms requested anonymity. To protect confidentiality, neither the name nor the location of any business, has been provided. The 18 firms in the study ranged in size from under USD5.26 million in turnover to more than USD131.57 million. Each firm derived at least 20 percent of its revenue from outside its domestic market. Industries covered included automobiles, constructions, telecommunications, consumer products and manufacturing. To identify the type of industry and the size of the business, codes have been utilized, as set out in Figure 4.4.

Figure 4.4 Respondent Codes

<table>
<thead>
<tr>
<th>Differentiating Criteria</th>
<th>Sample Stratum</th>
<th>Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry Grouping</td>
<td>Automobiles</td>
<td>A</td>
</tr>
<tr>
<td></td>
<td>Construction</td>
<td>C</td>
</tr>
<tr>
<td></td>
<td>Telecommunication</td>
<td>T</td>
</tr>
<tr>
<td></td>
<td>Consumer product</td>
<td>CP</td>
</tr>
<tr>
<td></td>
<td>Manufacturing</td>
<td>M</td>
</tr>
<tr>
<td>Size of Firm (based on Annual Turnover)</td>
<td>$20,000,000 or less</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>$20,000,001 to $100,000,000</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>Greater than $100,000,000</td>
<td>4</td>
</tr>
<tr>
<td>Geographical location</td>
<td>Kuala Lumpur</td>
<td>KL</td>
</tr>
<tr>
<td></td>
<td>Penang</td>
<td>P</td>
</tr>
<tr>
<td></td>
<td>Kedah</td>
<td>K</td>
</tr>
</tbody>
</table>

4.4 Research quality issues

Discussions about quality standards and verification in qualitative research lead to the questions of how do we know that a study is believable, accurate and right? Because truth is relative (Kuhn 1970), the possibility of any method being totally ‘objective’ is doubtful (Patton 1990:482). Accepting subjectivity, the researcher ought to accept that one’s
perspective affects fieldwork, carefully document all procedures and be open in describing limitations of the perspective ventured. In the case study approach, the research design, which is supposed to represent a logical set of statements, offers itself to a set of logical tests of quality that include trust-worthiness, credibility, conformability and data dependability (Yin 1994). According to Yin (1994:33), tests that are applicable to establishing the quality of any empirical social research are relevant to case study research because it is a form of empirical research. These tests include: construct validity, internal validity, external validity and reliability.

4.4.1 Construct validity
This test seeks to verify whether a sufficient set of measures has been developed by the investigator to measure the concepts being studied, and how subjective judgments have been minimized in data collection. Although this test has been noted to be problematic in case study research (Yin 1994:34), it is incumbent upon the researcher to specify the variables relating to the original objectives of the study, and to demonstrate that the selected measures really do measure the concepts being studied relative to other measures.

Yin (1994:34-35) recommends three tactics for increasing construct validity. One is to collect multiple sources of evidence, during data collection, so as to encourage convergent lines of inquiry. Here the evidence is triangulated from different data sources. Second, is to establish a chain of evidence during data collection. A chain of evidence establishes the linkages between the research problems through to the study’s
conclusions. To enable this, the researcher should ensure the accessibility of the field guide to data collection, the case study notes and ensure sufficient citation in the case report to the evidence contained in the database. The third tactic is to allow key informants to evaluate the draft case study reports where it concerns them. This process is to ensure the accuracy of the evidence.

For this study the author ensured that the case study protocol raised questions that were relevant to the work of alliance managers as portrayed in the extant literature. The views of alliance managers were verified by interviewing other respondents involved in the alliance within and by collecting secondary data through annual company reports, Memorandum of Agreement (MOA), newspaper articles and other publications from the firms visited. Data from other published sources, including published materials in business and professional periodicals and journals and internet web sites were used to supplement the primary material. This use of data from various sources will also allow the author to cross check and verify data and to ensure validity. Where possible, other respondents in the network that played a peripheral role such as the regulatory function were also interviewed to comment on relevant questions in the protocol. To enhance the chain of evidence tactic, documents relating to the establishment of the alliances, including government documents where necessary, were also collected. Summary reports of cases were sent to informants for validating the evidence and, where possible, discussions on the findings took place during later filed visits to certain sites. For example, the author had numerous discussions with the Ministry of International Trade and Industry officials during a second visit to cross check observations.
4.4.2 Internal Validity

Concerns about internal validity are strongest for causal or explanatory case studies where the investigator seeks to ascertain a causal relationship between two variables. If the investigator does establish such a relationship without accounting for other more relevant factors (spurious variables) then the research design has failed to deal with external threats to internal validity (Yin 1994:35). Internal validity for case study research also has to deal with the broader problem of making inferences where an event (past) cannot be directly observed. Hence the questions raised include (Yin 1994:35): Is the inference correct? Have rival explanations and possibilities been considered? Is the evidence convergent? Does it appear to be airtight?

One tactic that addresses internal validity is that of pattern-matching (Yin 1994). Others include prolonged engagement in the field, persistent observation, triangulation, peer debriefing, negative case analysis, and member checks of data, interpretations and conclusions (Lincoln and Guba 1985:301-315).

In this study, where possible, the pattern exhibited by a case was matched and compared with the existing literature reviewed in Chapter three. The data was also cross checked with secondary documents and corroborated with information documented by other researchers on Malaysia and against notes in the author’s diary.
4.4.3 External validity

This test deals with the problem of ascertaining whether a study’s findings are generalisable beyond the immediate case study. In case study research the goal is not to generalize to a larger universe (statistical generalization), instead the researcher is endeavoring to generalize a particular set of results to some broader theory (analytical generalization) (Yin 1994:36). To satisfy the test of external validity, replication logic was adopted in the study which determined sample selection. Here cases are selected to replicate the underlying theoretical propositions. Whilst accepting the generalizations are not automatic as a theory must be tested through replications of the findings in more cases (Yin 1994), the result may be nevertheless be accepted for other similar cases even if further replications have not been performed.

4.4.4 Reliability

The objective of this test is to ensure that the process of the study is consistent, reasonably stable over time and across researchers and methods (Miles et al. 1994:278). The issue is: can the research procedures be retraced by later researchers on the same case and expect to arrive at the same findings and conclusions? If this can be assured, then errors and biases will have been minimized. A prerequisite for this is the need to properly document the procedures followed in the earlier case, or to establish a clear ‘audit trail’. Yin (1994:37) recommends outlining as many steps as possible and to conduct research as if someone was watching over you in order to satisfy this test. For this purpose, the case study protocol is a reliable replicable guide and typically includes
the field procedures, the case study questions and a guide for a case study report (Yin 1994). This is complemented by the case study database and individual case reports.

For this study, the case study protocol is a central document for repeatability. The protocol derives from the analytical literature review, checked using systems theory and later pilot tested in Malaysia. Sources of documentary evidence entailing the case study database, field notes and secondary sources of data are stored in the Ministry of International Trade and Industry library and MIDA library.

4.4.5 Bias

There are a number of biases that may pose threats to the validity of conclusions. These include the selection of data to fit the researcher’s existing theory, the selection of data that stand out to the researcher, the effects of the researcher on the site or individuals (reactivity), the effects of the site on the researcher, and changes in the researcher during the course of the research (Miles et al. 1994:263; Patton 1990:473; Maxwell 1996:90-91).

Although it is impossible to completely eliminate these biases, the researcher is required to explain his/her possible biases and how these biases will be minimized. Thus Maxwell (1996:91) quotes Fred Hess who points out that “validity in qualitative research is not the result of indifference, but of integrity”.

The author in the course of the research ensured that the standard of interviewing was maintained throughout the cases as much as possible. The author went through the introductory letter which the participant had been given in advance, and explained the
purpose of the consent form. After this, an opening remark was made regarding the interest of the author in knowing more about the alliance. Throughout the interviews, the author talked little except where there was a need to probe further.

On two occasions, however, an interview was disrupted because the participant had to leave for an unscheduled meeting and the author had to return at another time convenient to the participant. When this happened, the interview environment and mood of the participants changed from when the rationale of the study was first explained. Unfortunately, a researcher has no control over such factors except to appreciate them. Moreover, before an interview the author read as much as possible background information about a case based on secondary data collected from newspapers, the Internet or annual reports collected during preliminary visits.

The author wishes to admit also that he knew some members of the participants. This raises questions of possible biases creeping into the research, especially if they knew or could easily anticipate the researcher’s opinions or background. To minimize this possibility the author said little except to pose questions. The discussion was allowed to flow freely without the author expressing affirmative or negative views about the propositions being put forth. By recognizing this possible threat to the validity of the findings the author fulfils the views of Fred Hess (quoted in Maxwell 1996:91) that holds that “validity in qualitative research is not the result of indifference, but integrity”.
4.4.6 Triangulation

The case study method is amenable to using many different sources of evidence unlike in research strategies such as experiments, surveys or histories (Yin 1994:91). The main benefit from using multiple sources of evidence is the development of converging lines of inquiry, for triangulation. Triangulation is defined to be “a validity procedure where researchers search for convergence among multiple and different sources of information to form themes or categories in a study” (Creswell and Miller, 2000:126). Triangulation may include multiple methods of data collection and data analysis, but does not suggest a fixed method for all the researches. The methods chosen in triangulation to test the validity and reliability of a study depend on the criterion of the research (Golafshani, 2003). This renders any finding or conclusion in a case study more convincing and therefore is more likely to be accurate. Patton (2002) discusses four types of triangulation:

(i) data triangulation (of data sources)
(ii) investigator triangulation (among different evaluators)
(iii) theory triangulation (of perspective on the same data set)
(iv) methodological triangulation (of methods)

This study utilized all triangulation methods except for methods triangulation. The latter was judged to be unfeasible because of resource constraints and where there were operational difficulties; respondents may have had different attitudes towards qualitative and quantitative research resulting in different answers being given. Also, qualitative and
quantitative methods may end up measuring different things which may be difficult to reconcile into a single picture of the situation (Patton 1990:187-189).

Data were collected from different sources including documents and people’s perspectives. Although the nature of PhD research prevented using different investigators, (Perry 1994) the author requested key participants to review findings, as suggested by (Patton 1990). All the participants agreed with the interview transcript sent back to them for review as this case was a sensitive one in terms of the relationship context of Malaysia. To eliminate the excesses of self reporting the views of the alliance managers from one firm were put to the managers of the same firm to validate their claims during interviews. Theory triangulation was also applied during the literature review and data analysis phases of the research where different perspectives were used: (i) strategic management, (ii) network approach, and (iii) relationship marketing. The research protocol, which reflects the different theoretical perspectives contributed to the triangulation process at the data collection stage. Overall, triangulation helps reduce system bias in the data and enhances the verification of findings and conclusions.

4.4.7 Software – Computer Assisted Qualitative Data Analysis

The use of software to support the work of qualitative researchers is maturing (Weitzman and Miles 1995; Weitzman 2000). The range of available useful tools to support many different approaches to qualitative research is now available. The interview data content was analyzed using NUD*IST (non numerical unstructured data, indexing, searching and
theorizing). The different strategic decisions in each case were mapped, as were the issues that were found to be important in the partner selection process. The factors identified were rank ordered, and non-parametric tests of significance were applied.

Researchers have pointed to the benefits of Computer Assisted Qualitative Data Analysis Software (Coffey & Atkinson 1996; Gahan & Hannibal 1998; Buston 1999:183-202). NUD*IST is recognized as a leading computer based software system that assists in creating a more comprehensive and rigorous analysis of qualitative data (Richards 1999; Gibbs 2002). NUD*IST allows researchers to organize large amounts of field work data into coherent logical structures. It then enhances the researcher’s ability to analyze this material rigorously. The system works by building and integrating documents into a data base. The data base for this thesis included the research project outline, records of interviews, field notes, memos, other internal documents and links to external documents. Interviews elicited a number of common themes, ideas and concepts that related to the research questions. These themes were used to segment and code each document. Under the NUD*IST system these various data segments are known as ‘nodes’. The software system could then simultaneously retrieve these nodes from all the coded documents.

The length of these nodes was at the researcher’s discretion. Some segments of information were only one sentence long, while other nodes comprised a full paragraph. The above sets could also be combined and the data compared across groups. Thus documents were developed into a system of interconnected data sets. This obviated the
need to continually search back and forth through written documents for like information, which allowed for a more accurate analysis of the data. Coding the data also required an analysis of the entire transcript and or field notes. This helped to ensure a comprehensive examination of the material.

4.5 Generalisation of findings

Whilst generalisation in qualitative research remains a thorny issue amongst qualitative researchers (Patton 1990; Maxwell 1996:96-97), this author wishes to limit discussion of this subject to the case study method described by Yin (1994) and adopted for this research. Yin (1994:30-31) differentiates between ‘statistical generalisation’ and ‘analytical generalisation’ or Level one inference and Level two inference, respectively. In the former type, “an inference is made about a population on the basis of empirical data collected about a sample” (Yin 1994:30). In the latter type, inference is derived from replicated results from cases to the theory being tested and not to the population. It is crucial to understand that statistical generalization is not the method of generalizing the results in case studies because cases are not ‘sampling units’ (Maxwell 1996:96-97; Patton 1990:486). Thus, Yin (1994:32) recommends that the researcher should aim for Level two inferences as the use of theory becomes the main vehicle for generalizing the results of the case study.

In this research a number of steps have been adopted to enhance the goal of achieving this type of generalization as recommended by Yin (1994). First, evidence was collected from (a) documentation which includes MOAs (memorandum of agreement), letters and newspaper cuttings, (b) archival records, which includes organizational records, past
annual reports and departmental reports, (c) semi structured interviews. Although the researcher adhered to the research protocol in the field, access to data was contingent upon the willingness of firms and government officials to release data. To summarise, the research findings of this study can be evaluated against the general partner selection practices established from the literature in Chapter three.

4.6 Ethical considerations

The issue of ethics in qualitative research is a cardinal principle and the author is committed to the highest standards. Researchers have to ensure they have adequately addressed the following issues in professional codes of ethics including the value of the project to society, competence boundaries, ensuring informed consent, avoidance of deception, an evaluation of harm and risk, ensuring privacy and confidentiality, ensuring data accuracy and integrity, ownership of data and conclusions, and use and misuse of results (Christians 2000: 138-140; Miles et al. 1994:290-297; Stake 2000:447-448). The researcher addressed these issues in his application submitted to the Murdoch University Human Ethics Committee which was subsequently approved without condition at its meeting of October 2004. Aspirations to these values continued into the design of the study, selection of methodology, data collection and reporting.

4.7 Conclusion

This chapter has adhered to the tasks set out for it as outlined in section 4.1. It considered the importance of paradigms to the research and justified the selection of the interpretivist/phenomenological paradigm. The selection of this paradigm is based on the exploratory nature of the research and the need to interpret meaning from rich data.
embedded in a cultural context. It then moved on to justify choosing the case study method for the research. The chapter adopted Yin’s (1994) approach to case study research because of its comprehensiveness and clarity on procedures. This will provide data for more extensive subsequent research and testing of propositions and hypotheses as part of an ongoing research on Malaysian firms. The method is a popular mode for PhD research in all fields and is useful for theory building particularly in strategic alliances (Easton 1998).

Following this, research procedures were outlined. The chapter contains the justification for using the soft systems methodology in the data analysis, and highlighted the importance of ethics throughout this intellectual journey. The chapter considered validity issues, including bias and triangulation and documents the use of other sources to validate the findings from the actual research. It also justified why computer software packages for content analysis were used in the data analysis. In terms of generalizations the chapter pointed out that the findings could only be generalized to theory rather than to a population.

The next chapter (chapter five) provides the results of cross case analyses of the eighteen case studies and highlights all the thematic issues. The data found in Chapter five is based on raw data derived using the research paradigm and methodology laid out in this chapter.
CHAPTER 5 CROSS CASE ANALYSIS AND THEORETICAL DISCUSSION

5.1 Introduction

In this case study the research aims were to examine strategic alliance partner selection in Malaysia and investigating the factors influencing these firms decisions to enter into an alliance in order to gain a better understanding of how to manage strategic alliances successfully. To achieve the research aims, this study explores the following: 1) the criteria used by Malaysian companies to select their partner, 2) the contributions that each company bring to the partnership and 3) management of the inter-partner relationship, including the difficulties encountered, how the relationship management varies with the characteristics of the foreign partner, and the resulting effects on the process of trust building. To explore the decision-making mechanics of strategic alliance partner selection, an embedded case study research methodology was used.

This methodological choice is appropriate when the investigation must consider both the phenomenon (partner identification) and the context in which the phenomenon is occurring (Yin, 1993). A key feature of this study’s research design is the use of multiple cases and data analysis based on comparing the findings of the individual cases. Individual cases are selected for independent investigation and it is the conclusions, based on each individual case, that are considered to be the information needing replication by subsequent cases (Parkhe, 1993). Subsequent cases are selected to extend the emerging theory to a broad range of organizations and this provides the confidence that the emerging theory is generic (Miles and Huberman, 1994). Subsequent analysis and evaluation of the data generated from the interviews then allowed a reevaluation and
development of the initial theoretical argument and conceptual framework first identified. Extracts from these interviews are used in the data analysis. The analysis extrapolates from the analytical summary of each case transcribed earlier on. The research questions were derived from the extant literature on strategic alliance and are targeted at filling the research gaps identified in Chapter three. The foundations of the research methodology used in this research are the debate about the philosophical approaches to research with the dichotomy identified as Positivism and Phenomenology.

The continuum is identified (Stiles, 1995, May, 1993) as positivism-empiricism-realism-idealism with idealism being at the phenomenological extreme. This research uses the perspective of realism in which as Stiles (1995) observes: “there is a need to understand the process by which people interpret the world” and “theory is used to explain observations from the social world”. The “qualitative paradigm” identified by Stainback and Stainback (1988) as one where “reality changes with changes in people’s perceptions”; where “reality is what people perceive it to be” and where “values will impact on the understanding the phenomena” is the appropriate one to address the issues of the type of “filters” on their perception of potential strategic alliance partners that Malaysian companies self-impose. This approach has also found favour with consultants, giving them something of substance to preach, peddle and practice (Lawrence and Ul-Haq, 1998). The analysis of the interview transcripts focused on the “discovery of regularities” and the “discerning of patterns” (Tesch, 1990) and it is these interviews which illuminate the preconceptions and proclivities of senior executives in Malaysian companies, and offer insight into the presumptive reasons for action.
The purpose of this chapter are to provide a brief background to each case, to compare and contrast the cases using the cross-case analysis approach (Yin 1994) to find themes in the cases. This process draws from data embedded in case reports transcribed by the author. These themes are in turn linked to the theoretical findings of strategic alliances and their experiences in the context of developing country like Malaysia in the final section of the chapter. The findings of this chapter create a holistic analytical model for strategic alliance partner selection, which will be presented in Chapter six. Thus important research gaps in the literature on alliance partner selection will have been filled. At the outset, it must be noted that this chapter is based on in-depth interviews and secondary sources. Where references are made to an alliance manager without sources being immediately provided in the text, the reader should read this as being from direct interviews undertaken during research. Sources that are not based on interviews are clearly referenced in the normal way. Secondary data sources also helped triangulate the data.

At the outset, it is important to lay out at the beginning of this chapter what constitutes an alliance manager. Generally, performing alliance cases in Malaysia are bound to have senior executives appointed as alliance managers. Their actual designation in their respective companies within the international division varies from senior managers to general managers. Throughout the discussion in this chapter, this position is referred to as an alliance manager.
Case 1  Telecommunication Company

TM International is the vehicle overseeing and managing the overseas ventures of TM Berhad, Malaysia’s largest and leading telecommunications group. The principal activity of the company is the establishment, maintenance and provision of telecommunication and related services under the license issued by the Ministry of Energy, Water and Communications. Having had its origins in the international ventures division, TM International has today made the successful transition from an operating division to wholly owned subsidiary. It has operations and financial interests in countries namely Sri Lanka, Bangladesh, Pakistan, India, Indonesia, Singapore, Cambodia, Thailand, Malawi, Guinea and Iran. In 2006, overseas operations contributed 30 percent to Group Profit After Tax and 24 percent to group revenue, up from 23 percent and 9 percent respectively in the corresponding period last year.

To give an idea of past performance, TM recorded an average compounded annual growth rate of some 38 percent in its Asian investments in revenue terms over the past five years (2001-2005). This growth rate has been led by its Bangladesh operations at 60.4 percent, followed closely by its Sri Lankan operations at 41.2 percent. Their top three overseas investments are Dialog (Sri Lanka), XL (Indonesia) and TMIB (Bangladesh). In India, TM acquires 49% stake in India’s spice Telecom, secures critical piece in regional footprint. In Cambodia, TM reaches agreement with SAMART corporations to acquire full stake in CASACOM, 24.4% stake in SAMART I-Mobile Plc. Rapid growth strategy of existing investments including possible strategic alliances
which would provide TM with outstanding international partners such as the Asian Mobility Initiative (AMI) and Vodafone.

**Case 2 Manufacturing Company**

NC Holding Sdn. Bhd. is an investment holding company with a stable of 23 operating subsidiaries engaged in various activities. NC Holding has 5 main business units namely, Transportation, Manufacturing, Property and Plantation, Defence and other support services. The manufacturing group consists of textiles and apparel and automotive engineering. The group is involved in several areas of the textiles and apparel industry. Its integrated textile mill produces a variety of fabrics and surgical dressing and is the main supplier of 100% cotton fabric to the Malaysian batik industry. The group is also involved in industrial tailoring, specializing in functional clothing for emergency services and military personnel. In addition to clothing, the textiles division which was established as a joint venture company between Parachute Industries of South Africa (PISA) and NHSB produces military parachutes to be marketed to the OIC (Organization of Islamic Conference) and ASEAN (Association of South East Asian Nations) region. PISA is one of the largest and most established military parachute manufacturers in the world.

**Case 3 Plantation Company**

GH Plantations long history reaches back to 1844. Daniel and Smith Harrison formed a partnership with Joseph Crossfield in Liverpool, England to set up a trading business dealing in tea and coffee. It was this partnership that developed into what GH Plantations is today. In 1982 this company was acquired by the locally incorporated Harrison
Malaysian Plantations Berhad following an agreement between Permodalan Nasional Berhad (the National Equity Fund set up by the Malaysian Government to invest on behalf of Bumiputras. Backed by the solid foundation in plantation practices, GH Plantations moves towards new frontiers to meet its customer needs. Since its first foray into the downstream business in oils and fats through the acquisition of palm oil refining businesses in the 1980s, GH continues to serve its customers in the downstream sector via the acquisition of refining facilities overseas and through overseas joint ventures. They include the purchase of Unimills B.V in the Netherlands in January 2002 and Hudson and Knight (Pty) Ltd, South Africa on April 29, 2004; joint ventures include GH-Nhabe Edible Oils Co. Ltd. Vietnam (Nhabe), a joint venture between GH and Vietnamese Government agency Vocarimex. The group has also established footholds in Bangladesh and China with associate company, the Leverian group. In 2004, Golden Hope became the largest plantation company listed on Bursa Malaysia. Today it has 14,000 shareholders and nearly 20,000 employees. It owns 81 estates, 23 oil mills, two rubber factories, one bulking installation and five overseas operations.

Case 4 Manufacturing Company

The Sime Darby Group is Malaysia’s leading multinational and one of Southeast Asia’s largest conglomerates. Founded in 1910, the Group has grown from a single company offering a single product and service in one country into a strong and dynamic international group with a comprehensive range of business activities carried out by more than 28,000 employees in over 300 companies in more than 20 countries. Known for its financial and management capabilities, S. Darby Group is listed on the Main Board of
Bursa Malaysia Securities Berhad with a market capitalization in excess of US$3.68 billion as at 30th June 2006. In addition to its original plantations core business activity, S. Darby is also a major player in the motor vehicle, heavy equipment, property and energy and utilities industries. While the core businesses are located in Malaysia, the Group has extensive trading and manufacturing interests in the People Republic of China (including Hong Kong SAR and Macau SAR), Singapore and Australia. The Group also operates in Brunei, Indonesia, Thailand, Vietnam, the Philippines, United Kingdom, New Zealand, the Solomon Islands, Papua New Guinea and New Caledonia. In 2006, S. Darby Berhad, through its subsidiary, Sime Darby Auto Imports Sdn. Bhd was appointed the official importer of BMW and MINI vehicles in Malaysia. The appointment, which continues a fruitful relationship between BMW and Sime Darby that goes back to the 1980s when Auto Bavaria Sdn. Bhd. was appointed as authorized importer and distributor of BMW products in Malaysia, also enhances the already strong partnership between Sime Darby and BMW.

**Case 5 Engineering Company**

Somi Group Berhad is an investment holding company, with subsidiaries involved in the Oil and Gas support services offering various products and services such as drilling fluids and related engineering services for drilling operations, supply of industrial and production chemicals and production enhancement, energy logistics and logistics engineering. Somi’s business operations are conducted through its main subsidiary and associate companies around the globe. In 2003 the company entered into a technology transfer collaboration with ShinMaywa Industries Limited of Japan for the fabrication
and distribution of a wide range of new improved refuse compactors. In the Middle East, the group formed a joint venture with Enterprise Nationale des Travaux, a drilling contractor owned by Sonatrach, the Algerian national oil company.

**Case 6 Manufacturing Company**

Impress group has established itself as a prominent automotive component manufacturer and a contractor in the power and utility industry. Over the ten years of manufacturing different products for various customers, Impress has acquired valuable know how in utilizing roll forming, joining and bending technologies. To accelerate the learning process, Impress has an on-going technical assistance agreement with Katayama Kogyo Ltd. of Japan as well as other types of collaborative arrangements with companies using similar technologies from outside the region. For their expansion programme in the ASEAN region, they despatched their key personnel as expatriates to impart the technology to the local members there. In Indonesia, Impress has formed a joint venture with local partner Herman to form PT Impress Malindo Ventures. Within this specialized industry, Impress is proud of the fact it has been able to make a regional presence amidst stiff competition from the more established world players trying to gain a foothold in this region. Whilst Impress is the sole player in Malaysia, Impress is one of only two players in Thailand with a full-fledged manufacturing plant. Impress is proud to be associated with AAT, Honda, Isuzu, GM and Matsushita as one of their consistently top-ranked suppliers.
Case 7 Car Manufacturing

Perodua was established in 1993. The joint venture partners/shareholders of Perodua and their respective shareholding are UMW Corporation (38%), Daihatsu of Japan (20%), MBM Resources (20%), PNB (10%), Mitsui of Japan (7%). The company’s operations commenced early 1994 and the first vehicle, the ever so popular, Perodua Kancil was introduced to the Malaysian market in August 1994. To date, Perodua has 32 sales branches and 142 sales outlets nationwide to serve its customers efficiently. Perodua vehicles are sold in 13 other countries including United Kingdom and Egypt. Up to end of March 2004, Perodua has successfully sold approximately 803,126 units of vehicles of various models both locally and abroad.

Case 8 Car Manufacturing

Proton was incorporated in 1983 as a private limited company under the name Perusahaan Otomobil Nasional Berhad and was subsequently listed on the Main Board of the then Kuala Lumpur Stock Exchange (now Bursa Malaysia) on 26 March 1992. Proton commands a substantial share of the domestic market for passenger cars and over the years building up distribution networks in key market centers across four regions namely United Kingdom/Western Europe, The Middle East, South East Asia and Australasia. In light of the increased competition and liberalization within the domestic automotive industry, rapidly changing trends and industry challenges, PROTON has formed strategic alliances with international partners for mutual benefit. These collaborations are also for the purpose of acquiring products, where appropriate, to optimize capacity usage and even for gaining market access. The collaboration with Mitsubishi is part of the product
alliance strategy and will enable PROTON to quickly develop additional products and technical expertise in specific areas. The business arrangement with Chery Automobile Company Limited of China provides the opportunity for both companies to work together, amongst others, to co-source materials and components. PROTON, via Lotus Engineering Malaysia, had also entered into a collaboration agreement with Jinhua Automobile Limited of China to promote PROTON’s products to China, one of the most vibrant automotive markets in the world.

**Case 9  Plantations Company**

Kumpulan Guthrie Berhad is one of Malaysia’s leading conglomerates in South East Asia with core businesses in plantation and property. The Guthrie Group’s main core business of plantations lies in South East Asia with plantation operations spanning from Kedah to Sabah in Malaysia, and from Sumatera, Kalimantan to Sulawesi in Indonesia. In 2001, Kumpulan Guthrie Berhad completed the acquisition of 26 Indonesian companies involved in the cultivation of oil palm and production of palm oil and palm kernel from Indonesian Bank Restructuring Agency. Together they are known as Minamas Plantation thus enhancing the size of the Group’s land bank two-fold. In 2004, the company became the first plantation company in the world to be granted EUREPGAP (European Retailers and Producers Good Agricultural Practice) certification, a testament of the Group’s ability to produce best quality products.
**Case 10  Engineering Company**

Puncak Niaga Holdings Berhad was incorporated in 1997 with interest in infrastructure activities specializing in water treatment engineering and water related activities. It is also the first water treatment and supply concession company to be listed on Bursa Malaysia under the infrastructure Project Company guidelines issued by the Securities Commission. Puncak Niaga achieved another milestone when the company signed an agreement with DHI Water Environment Health (DHI) from Denmark to set up a state of the art water treatment research center in Kuala Lumpur. Under the agreement, DHI will work with Puncak Niaga for a period of three years and the agreement could be renewed on a yearly basis upon mutual agreement by the two companies.

**Case 11  Construction Company**

Bina Darulaman Berhad (BDB) is a group of companies with complimentary activities, established to primarily pave the Kedah State Economic Development Corporation’s advent into Malaysia’s private sector. BDB is principally an investment holding company and its subsidiaries, Darulaman Realty Sdn. Bhd., Syarikat Bina Kuari Sdn. Bhd., Kedah Sato Sdn. Bhd. (a joint venture company with Sato of Japan), Darulaman Golf Resort and BDB Hotels Sdn. Bhd. are engaged in property development, quarrying and road construction activities, civil and general constructions and operations of golf resort. The above subsidiaries have substantial resources and excellent track records which enhances BDB’s efforts to propel the group into a major force in its diverse range of businesses within and outside Malaysia. One of its subsidiary company which has been incorporated
in Indonesia under the name PT Darulaman has entered into joint venture agreement with an Indonesian company to undertake quarrying business in Aceh, Indonesia

**Case 12 Airline Company**

In 1980, Malaysian Airline System (MAS) became the first major government agency to be privatized. Breaking the barriers of the new millennium, MAS has now a fleet of nearly 100 aircraft serves more than 100 destinations around the world. As part of their expansion, they have recently allied with Cathay Pacific of Hong Kong to provide a code-sharing agreement to enable more weekly flights to Hong Kong. At a time when collaboration and partnership prevails, Malaysia Airlines has forged many agreements with regional and international airlines to provide various services including catering, maintenance and inter airline passenger transfers. Malaysia Airlines’ efforts have also received awards from various institutions including the Asian Institute of Management and the Boeing Aircraft Company. The Malaysia Airlines global network comprised 32 domestic and 86 international destinations. Of the 86 international destinations, 17 were operated in collaboration with other airline partners. Code sharing involves one carrier using its designator code on a service operated by another. The ticket will carry the code of one airline, while the service will be provided by another under its own brand. Under a code share arrangement, passengers enjoy a seamless product, as a single airline will supervise the passenger’s entire journey.
Case 13 Oil and Gas Company

Petroleum Nasional Berhad (PETRONAS) is wholly owned by the Malaysian government and is vested with the entire ownership and control of the petroleum resources in Malaysia through the Petroleum Development Act 1974, an Act of Parliament. Over the years, PETRONAS has grown to become a fully integrated oil and gas corporation and is ranked among FORTUNE Global 500’s largest corporations in the world. PETRONAS has four subsidiaries listed on the Bursa Malaysia and has ventured globally into more than 33 countries worldwide in its aspirations to become a leading oil and gas multinational of choice with various joint venture partners.

Since its inception, PETRONAS’ business has grown to encompass the full spectrum of oil and gas explorations, both locally and globally, in the areas of upstream oil and gas exploration and production to downstream oil refining, marketing and distribution of petroleum products, shipping and property investment. In the downstream activities overseas, PETRONAS operates an expanding network of service stations in Cambodia, Thailand and Sudan. It also has a joint venture to import, store, bottles, distribute and market LPG in Vietnam, China, India, Thailand and the Philippines. Its South African subsidiary, Engen Ltd. has a large network of service stations marketing and distributing gasoline and other petroleum products in South Africa and neighbouring countries. In the upstream activities, PETRONAS is actively engaged in the exploration, development and production of crude oil and natural gas both at home and abroad. In Malaysia, these activities are undertaken and managed through production sharing contracts with a number of international oil and gas companies as well as with subsidiary PETRONAS.
Carigali Sdn. Bhd. In 2005, PETRONAS entered into a strategic partnership with Tharwa Petroleum Company of Egypt in oil exploration activities in four blocks located in the western desert of Siwa, West Ghazalat and El Saloom. In the other related industry, PETRONAS has formed a strategic alliance with China’s carmaker Nanjing Automobile Corporation to look into the possibility of using its PETRONAS E01 engine technology for the carmaker’s vehicle line up. PETRONAS also officially became a Premium Partner to the BMW SAUBER F1 Team, extending its longstanding arrangement with SAUBER to the new BMW managed team. In Australia, PETRONAS signed a joint development agreement with BRP-ROTAX to further develop and commercialise PETRONAS high performance engine family.

Case 14 Utilities Company

YTL Corporation Berhad is one of the largest companies listed on Bursa Malaysia and together with its five subsidiaries has a combined Market Capitalisation of almost US$9.1 billion. The company was listed in 1985, has also had a secondary listing on the Tokyo Stock Exchange since 1996. YTL was the first Asian non Japanese company to be listed on the Tokyo Stock Exchange. The YTL Group’s core businesses are ownership and management of regulated utilities and other infrastructural assets, serving 10 million customers in three continents. In Australia, YTL owns a 33.5% stake in ElectraNet Pty Ltd, which owns and operates the power transmission grid for the State of South Australia. ElectraNet operates under a 200 year power transmission concession in the state. In United Kingdom, YTL owns a 100% stake in Wessex Water, one of the most efficient water and sewerage operators in the United Kingdom. Wessex Water is a utility
concession in perpetuity. This significant acquisition represents YTL’s first major foray into Europe, and marks the beginning of another exciting chapter in the growth and development of the YTL Group. In Indonesia, YTL has a 35% stake in PT Jawa Power which owns a 1220MW coal fired power plant located at the Paiton Power Generation Complex in East Java, Indonesia. Jawa Power is the second largest IPP in Indonesia and has a 30 year PPA with PT PLN (Persero), the state owned electric utility company.

**Case 15 Motor Vehicle Assembly Company**

Tan Chong Group was founded in 1957. In 1962, Tan Chong Motor managed to get the franchise from Nissan Japan and became the pioneer company to introduce Japanese vehicles to the Malaysian public. By 1970, Nissan had become one of the top selling brands in Malaysia and Singapore. Nissan cars sold in Singapore are fully imported from Japan, whilst those in Malaysia are locally assembled. In 1974, Tan Chong was listed on the Kuala Lumpur Stock Exchange and since then the Group has broadened its business operations to include motor vehicle assembly and parts manufacturing, heavy vehicles, equipment and machinery, property investment and financial services, tours and trading. Geographically, Tan Chong Group’s business activities span the Asian Pacific region, operating in Malaysia, Singapore, Hong Kong, Brunei, Australia, and Papua New Guinea. Now the Group is also initiating new business opportunities in Macao and China. Their assembly plant in Kuala Lumpur also assembles other makes of cars such as Renault and Mercedes under contract. Tan Chong has also participated in a joint effort to develop the first Asean vehicle with Nissan Japan and the franchisees in Thailand and the
Philippines. The product – Nissan AD Resort, uses components sourced from participating countries and enjoys preferential duty treatment in these countries.

**Case 16 Industrial Group Company**

UMW Holding was founded in 1902. Over eighty years, UMW has progressed to be one of the largest locally owned companies in Malaysia with a diversity of interests ranging from the motor vehicles, distribution of principal industrial equipment, to manufacturing, engineering, construction, agriculture, leasing and insurance. Strategic alliances with global players have positioned the group as a leader in its core businesses. UMW is in partnership with some of the well known multinational corporations from Japan, the United States and Europe. UMW also has a 38 percent investment in Perodua which manufactures the second national car. Overseas, the group has operations in Singapore, Thailand, Vietnam, Myanmar, Papua New Guinea and China. In the automotive section, UMW has formed a joint venture with Japan’s Toyota Motor Corporation and Toyota Tsusho Corporation to assemble, market and distributing Toyota cars and commercial vehicles. Lubetech and UMW Pennzoil are joint venture companies manufacturing and marketing Pennzoil lubricants. Pennzoil is the number one selling motor oil in the United States for the past 20 years and running. KYB-UMW Malaysia Sdn. Bhd., manufactures shock absorbers and power pumps and systems using technology from Kayaba Industry Co. Ltd. of Japan.
Case 17 Automotive Company

DRB HICOM in one of Malaysia’s leading corporations, playing an integral role in the nation’s road to industrialization. DRB HICOM maintains a strong position in the automotive, manufacturing, assembly and distribution industry through its involvement in passenger cars and four wheel drive vehicles market segment, the national truck project and the national motorcycle project. Besides automotive, the group’s core business focuses are also in services, property and infrastructure and defence sectors. DRB HICOM’s leadership within this sector is reflected through niche segmentation via the development of new and innovative technology applications and continued strategic alliances with renowned global names such as Audi, Honda, Mitsubishi, General Motors, Isuzu, Mahindra of India, Kawasaki, Suzuki and Tata of India. DRB HICOM continuously seeks new alliances to strengthen its base further and develop new business potentials that will strengthen both DRB HICOM and its partners. In the defence industry, DRB HICOM has entered into strategic alliance with a number of renowned international defence manufacturers. Among them are FNSS from Turkey, Daimler Chrysler from Germany for military vehicles, Alvis from United Kingdom for all terrain mobile platform, Mowag from Switzerland for army vehicles, Iveco from Italy for heavy duty military trucks, Giat Industries from France for artillery system and Raba from Hungary for special vehicles components.

Case 18 Maritime Company

Business Focus Sdn. Bhd (BFSB) is a dynamic Malaysian conglomerate with diversified interests in growth industries, with particular emphasis on maritime activities. BFSB was
initially set up to undertake the privatization of Penang Shipbuilding Sdn. Bhd. BFSB was incorporated in 1991 as a private limited company under the Companies Act 1965. Over the years BFSB has formed strategic alliances with many international companies to spearhead its activities. One of them is Wavemaster International of Australia. Headquartered in Western Australia, Wavemaster International is a leading designer, developer and builder of high performance aluminum ferries and other vessels for the world market. Formed in 1984, Wavemaster International is Western Australia’s oldest and established builder of high performance aluminum ships. The company has delivered over seventy vessels during the past 18 years to customers in Europe, Africa, the Middle East, North Asia (including Japan), South Asia, Australia, New Zealand and the Pacific. In Malaysia, Wavemaster has a yacht center located in Langkawi in the state of Kedah, North West of peninsular Malaysia.

Their marine technology academy has also formed strategic alliances with reputable universities abroad such as University of New South Wales and Australian Maritime College to provide a world class marine and defence technology, education and training program. BFSB is also involved in tourism industry in Peru via its associated company, Peru Hotel S.A. (PHSA). PHSA has four hotels in Cuzco, Peru. BFSB involvement in the financial services sector is led by Business Focus Capital Sdn. Bhd. which is involved in commercial and investment banking activities in Ghana through its 37.25% equity stake in Metropolitan and Allied Bank (Ghana) Limited. In addition, BFSB has also invested in Arab Albania Islamic Bank which is involved in retail banking activities in Albania. In South Africa, BFSB is represented by one of its subsidiary as project manager for
Sandton Hotel in Johannesburg, South Africa. BFSB ventures abroad not only see the company establishing strategic synergistic alliances but also allow a flow of technology and expertise in and out of Malaysia. These alliances include those with the major global players in their respective industries such as Blohm Voss and Ferrostaal AG for the petrol vessel project.

5.2 Partner Selection

Geringer (1991) suggests that partner selection criteria may be grouped into task-related and partner related criteria. While task related criteria refer to the complementary capabilities the partner may offer, partner related criteria are closer to the notion of ability to work with the partner. According to the data, the most prominent criteria Malaysian companies look at when searching for a potential partner fell into the categories suggested by Geringer (1991). Task related criteria include knowledge of the market conditions, knowledge of the environment, patents, experience of management and political influence. It basically focuses more on operational and performance characteristics, tangible or intangible, human or non human. Partner related criteria include reputation, potential to maintain a continuing and stable relationship, position within the industry, professionalism, honesty and seriousness, fit, and enthusiasm for the project. Representatives of Malaysian companies that entered into strategic alliances referred in the interviews to some sort of search process, one which at least considered the merits or otherwise of various potential partners.
A recurrent theme in these testimonies was that of using a presumed similarity between potential alliance partners as a way of narrowing the field of choice, to screen out the whole range of possible candidates. Interviewees spoke here of wanting partners who were of comparable size, similar structure, having comparable decision making processes, and sometimes the wish was expressed for alliances with foreign companies having a similar culture. Thus, firms tend to seek a partner whom they perceive to have complementary assets from which synergies can be realized. They prefer firms of similar size and structure in order to minimize the risk of domination, excessive dependence and an equitable balance of benefits. It may be noted that this approach is both rational and bounded at the same time. It is rational in its plausible linking of means to ends yet it is clearly bounded in the classic sense of Cyert and March (1963; 1992) in that many of the things in terms of which similarity may be apprehended are unknowable, or at least not knowable with certainty or precision.

The classic formulation of bounded rationality (Cyert and March, 1963) opined that (1) the human capacity for rational cogitation is limited (2) people will not engage in an exhaustive search for relevant information (3) they will not interpret data objectively (without bias) (4) they will not consider all options, but foreclose on the first “good offer” (will satisfy not optimize). Thus, managers first do not consider the infinite number of possibilities available to them as espoused in economic theory due to the inability of the human mind to grasp and process all these possibilities, and second, the need to take action within a relatively short time frame is usually paramount; hence managers seem to use conscious and subconscious filters to reduce the enormous range of possibilities to a
manageable number (Lawrence and Ul-Haq, 1998). This consideration becomes more important as one move from tangible to intangible phenomena as one makes, so to say, the perilous journey from company asset size to comparing corporate cultures. But the search for similarity as between partners is not the whole story. Especially where cross border cooperation is concerned, it often appears that the issues of choice and bonding are affected by a mix of history, circumstance and sentiment.

Almost all interviewees assert the similarity principle, that is, the idea that alliances are most likely to work when the partners are alike in significant ways thus suggesting that the screening of possible alliance partners may also owe something to history, circumstance, political culture and national sentiment, and even that the criteria may embrace social ideology. At the same time there is a possible inconsistency. This is that at least sometimes complementarity, implying dissimilarity of the partners, will be the essence of an alliance. This phenomenon is often observable in the smaller countries like Malaysia. The case for complementarity is made very clearly by the Chief Executive Officer (CEO) of one of the Malaysian company interviewed referring to that company’s alliance; “We have learned how best to launch our product after having learned what our partner experience has been. We admire how they develop business by phone, even selling products on their side they look at our branch network with five people or less per branch, and compare it with their average of nine. Also they are very good at serving customers, and we are very good at developing profitable customers”. In short, differences are exploited for organizational learning and business realization.
The main deficiency of Malaysian companies when investing abroad is their lack of market knowledge in terms of business conditions, products, and clients. When searching for a partner, the first condition Malaysian companies’ look at, is whether the potential partner will be able to provide that knowledge. In one extreme case, one of the largest agricultural companies in Malaysia felt no company in Indonesia would be able to provide this knowledge, given the lack of commercial agricultural activities with a market orientation in the recent past. This was one reason for this Malaysian company to partner with another country company already operating in Indonesia instead of joining with an Indonesian one. Knowledge of the economic environment, the regulatory system, and the capacity to have an influence on politicians were also appreciated by some of the Malaysian companies. Interestingly, only two companies in the sample did not find the latter a significant factor in partner selection. Because of the merger development of many multinational companies and the reduced number of local entities, Malaysian companies did not value local partners as a source of key political and business connections.

According to one of the interviewees, the choice of a partner is more important than funding: “If you don’t have funds, you don’t undertake the project, and that is it; but if the partner isn’t a good one, then you’re in trouble,” This remark reveals the importance of knowing the characteristics of the partner. It is difficult, however, for Malaysian companies to discern which companies are good ones. This is why reputation is important. Malaysian companies look for a good reputation in the business sense, not in the political one. They explicitly stated that they avoid involving politicians although
having a partner with some political influence was considered very important in an 
untested and fluid legal environment for some tasks, such as obtaining approval to set up 
a new office or in registration, custodial and settlement procedures. In order to have a 
sense of the potential partner’s reputation in business, Malaysian companies wanted to 
know what a potential partner had done in the past and what it was doing currently. 
Interestingly, agricultural and manufacturing companies, with one exception, attributed a 
great deal of importance to reputation in the core or related business area of activity. In 
contrast, one of the consumer goods companies did not mention reputation as a 
characteristic to look for in a potential partner.

Most of the Malaysian companies in the sample acknowledged that they were investing 
abroad in hopes of long run future benefits, rather than taking the kind of ‘hit-and-run’ 
position that seemed to characterize some of the early entrants. Thus, these Malaysian 
companies needed a partner with a certain degree of stability and the capability to stay 
with them in a continuing manner. The quest for stability seems to be closely related to 
the search for reputation. Most of the companies that had looked for a partner with a good 
reputation also acknowledged they had looked for a continuous relationship (Lorange and 
Roos, 1992). Again, the companies in the consumer goods industry did not mention 
stability as a desirable condition in a potential partner. This is not to say that these 
companies do not appreciate their partner’s reputation or continuity in the relationship, 
but that they either takes these conditions for granted or attach greater importance to 
other conditions.
Also, related to the partner’s reputation, is its position within the industry. This feature was stressed by the manufacturing companies, one of the engineering services company and the consumer products companies. One of the manufacturing companies participated in a consortium involving a number of manufacturing companies from other countries as well as two Malaysian companies. All of the partners were leading manufacturing companies in their respective countries. As already mentioned, another manufacturing company had decided not to have a local partner in an overseas venture because they did not think they could find a local manufacturing company that could bring to the partnership either experience in local consumer needs or funding in the local currency. According to the consumer products companies, a partner’s sound position in the industry may help in a number of ways, for instance, saving startup costs if the partner’s facilities can be easily accommodated to the Malaysian practices, or providing connections with local companies.

Professionalism in the widely adopted sense is also appreciated in a potential partner. Companies in Malaysia and Asian region with managers that already have a western mentality and managerial skills are scarce but very much appreciated. Yet, a significant number of Malaysian companies believed they will have to wait for the next generation of young people with a western mentality, given the impossibility as one manager stated of older people adapting their mindset to rapidly changing conditions. However, foreign companies’ expectations for young Malaysian and Asian people with minds open to western influence were very high. They expected the younger generation to play a key role in future managerial responsibility within the local affiliates. The process of
replacing expatriates as local managers gradually assume the former positions had begun in all companies interviewed. In one case, the Malaysian general manager of a joint venture, with a majority stake by the Malaysian company, had previously been employed by the foreign partner.

Malaysian companies looked for honesty and seriousness in their partners. Obviously, these characteristics are valued in any context. The difficulties Malaysian companies have in ascertaining their presence in various companies abroad have to do with the fact that these words may have different connotations in the two cultures. What is considered ethical or unethical behavior by Malaysians and by their alliance partners may not be the same. What Malaysian companies look for is common ground in this area. Fit between companies was also mentioned by two of the interviewees. One of the consumer products companies said they had looked for a company about the same size as their own; in fact, they partnered with the largest China producer of their own product line. One of the industrial companies also talked about fit. Product complementarity had made it easy for the Malaysian company to restructure its manufacturing facilities to adapt them to the new joint product. Some Malaysian companies thought enthusiasm for the project on their alliance partner’s side was important. Such willingness to succeed was perceived as a signal of commitment to the partnership, a necessary condition for success. By now it should be clear that task-related criteria are closely connected with the contributions each company will make to the partnership, and that partner related criteria will affect the process of managing the relationship.
5.2.1 Summary of Partner Selection Criteria in Malaysia

Research has demonstrated differences in the criteria utilized by executives in developed and emerging economies in strategic decision making (Hitt et al., 1997). This work suggested that firms from different countries tend to approach strategic problems in different ways largely as a function of variances in their strategic orientations. Based on differences in history, culture and economic factors, it is predicted that there will be differences in the partner selection criteria employed by Malaysian companies and foreign companies. Economic behavior in Malaysia is embedded in a vast network of institutionally defined relationships between business and government. While Malaysia has experienced rapid economic development, its stage of industrialization remains behind that of many western countries. Malaysian exports continue to increase and much of this development has been supported by a system of state capitalism that encourages vigorous economic expansion into new markets. As a result, the predominant goal of Malaysian companies has been growth.

This longer term emphasis focuses Malaysian companies on growth opportunities with less emphasis on short-term financial outcomes compared to companies in many other countries. The Malaysian government’s emphasis on growth influenced technological policy. For many years since the conceptualization of Vision 2020, there has been an increase in government supported science and technology initiatives stimulating an increase in the number of private R&D institutes such as SIRIM (Standards and Industrial Research Institute of Malaysia) and Multimedia Development Corporation (MDC). Alternatively, to acquire market share in export markets, Malaysian firms had to be low
cost producers. As a result, the emphasis on growth motivated Malaysian managers to develop aggressive strategies to acquire technological capabilities from external sources (Ali, 1992).

Analysis of the data showed that there were in fact, major differences in the criteria used to select alliance partners by Malaysian companies. The most significant criteria chosen by Malaysian companies in order of importance are depicted in Figure 5.1

**Figure 5.1: Partner Selection Criteria Used by Malaysian Companies**

<p>| | |</p>
<table>
<thead>
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</thead>
<tbody>
<tr>
<td>1.</td>
<td>Technical Capabilities</td>
</tr>
<tr>
<td>2.</td>
<td>Industry Attractiveness</td>
</tr>
<tr>
<td>3.</td>
<td>Special Skills You Can Learn from Partner</td>
</tr>
<tr>
<td>4.</td>
<td>Willingness to Share Expertise</td>
</tr>
<tr>
<td>5.</td>
<td>Capabilities to Provide Quality</td>
</tr>
</tbody>
</table>

Malaysian companies (90%) place significant emphasis on a potential partner’s technical capabilities (e.g., the ability to develop new process or product technologies). Beyond those already mentioned, Malaysian companies also placed importance on the attractiveness of a partner’s industry (80%), special skills that their firm could learn from its partner (70%), and a partner’s willingness to share its expertise (65%). Thus, Malaysian companies are specifically searching for partners that have technical capabilities or marketing know-how that their firm may not possess but wishes to learn. Of course, they are also interested in a partner that is willing to share these capabilities and skills with them (60%).
Finally, they are concerned about selecting a partner working in an industry with an environment favourable to achievement of the Malaysian firm’s goals. These criteria are evident in at least twelve companies interviewed. There were other criteria found to have secondary importance for partner selection in Malaysia. For example, few of the Malaysian companies interviewed also placed importance on a partner’s intangible assets (e.g., firm reputation, brand name, human resources) and the cost of alternatives to an alliance (e.g., development of a wholly owned subsidiary in the new market). Malaysian companies also placed some importance on a partner’s ability to acquire its core skills suggesting an interest in a mutually beneficial alliance.

The results provided significant support for this research’s expectations. For example, Malaysian companies were less interested in the financial assets (e.g., capital) of their partner but placed a strong emphasis on the value of collaboration and sharing of skills and expertise. Additionally, the results also suggest that Malaysian companies may be relatively successful at partnering because they are interested not only in learning from their partners but also in a mutually beneficial relationship by providing their partner with important skills. Their prior experience of networking across businesses within the country and building ties with government officials suggests that both partners must benefit if an alliance is to be successful.

The results also support the notion that Malaysian companies look externally for new and valuable technical capabilities. Certainly, the Malaysian government’s industrial policy to promote business and attractive growth industries is exemplified through the Malaysian
companies’ emphasis on selecting partners in these attractive industries. While the most important criteria used by Malaysian companies to select partners strongly differ from some developed countries, consideration of their total selection models as explained above, suggests some similarities, as well. For example, there were 12 criteria used by developed country managers and 8 criteria used by Malaysian managers (out of 14 possible criteria in this case study). In the final models, there were six criteria that were the same in both models, although they differed in their importance across the models (their relative ranking for partner selection differed). Thus, this study concludes that there are some similarities in the criteria used for selecting alliance partners by Malaysian companies and developed countries.

5.3 Contributions to the partnership

In previous decades, partnerships, particularly strategic alliances, were used as an entry mode to new countries out of necessity. Frequently, a local partner was needed to fulfill governmental requirements, but no important contributions were expected from this passive partner. More recently, the contributions from local partners are at least as important as those from the foreign company. More and more, the partners are interdependent, and each needs contributions from the other (Nohria and Garcia-Pont, 1991). The contributions from both the Malaysian firms and their alliance partner to the partnership are closely connected with the task related criteria for selecting a partner. Thus, we may expect the contributions from Malaysian alliance partners to be related to their knowledge of the local conditions, and those from Malaysian companies to be related to their business skills.
The main contributions from the alliance partner companies cited by Malaysian companies in the sample were their industrial facilities and production capacity as well as their market access. Local facilities provide a basis to start with, even if they require renovations. In one case, the alliance partner contributed its sound position in a related area, and in this way it provided access to key raw materials. One of the consumer products companies saw the labour force as one of the contributions of its alliance partner. Another company saw this kind of contribution as a negative one in that the ratio of production to staff personnel was comparatively low. Market access was another important contribution in some cases, and so was the alliance companies’ ability to manage their own people. The latter was also acknowledged by one of the manufacturing companies.

Some additional contributions from alliance partner companies include the search for a good location and ability to manage the process of securing regulatory approvals. When the latter is done by the local partner or by a specialized local institute, the process speeds up because of the locals’ knowledge of regulation and procedures and personal contacts.

The main contributions from Malaysian companies are knowledge transfer and financial resources. Knowledge transfer takes place at several levels: technical know-how, marketing skills and management systems. Not only manufacturing companies but also consumer products transfer technical know-how. Given the primary stages of the telecommunications system in certain countries they invested in, knowledge about new technologies had to be transferred by the Malaysian telecommunication company joint
venturing with another foreign company. The need for the transfer of marketing skills is a natural consequence of previous market conditions in certain countries like China and Indonesia (Govindarajan and Gupta, 2000). The lack of competition in the centralized economic system of the recent past engendered no need for marketing related skills and capabilities. The production standards were set by the government, and companies just had to meet them, knowing that their products would find a demand. As an anecdote, one of the interviewees said that their Chinese partner was proud not to have their brand in the market, which shows a mentality totally at odds with a Malaysian one. In some cases, not just the marketing skills, but also the brand and the product image had been transferred to the partnership.

The transfer of technical know-how and of marketing skills is necessarily accompanied by the transfer of management systems. This requires training the people involved. Malaysian companies provide extensive training programs, at both the managerial and the technical level. Often these programs take place in the alliance partners’ premises as well as in the Malaysian companies’ home office. Financial resources are also a main contribution from Malaysian companies. Their up-front investment serves as a guarantee or as a signal of commitment for financial institutions to provide the remaining necessary funds. Other contributions from Malaysian companies include experience and credibility and the initiative to undertake the project. Interestingly, the manufacturing company that had no hope for a local company partner chose another foreign company because of the political connections it had established while operating in Africa prior to this partnership.
If one asks representatives of Malaysian companies why their institutions entered into particular alliances they usually respond with quite specific answers: to give access to this market or that customer; to conjoin technology, systems, know-how and customers in various permutations; to provide reciprocal services for the customer cross-border, and so on. But if one asks these same people about the benefits of extant alliances one receives a surprising number of answers couched in terms of intangibles. One of these intangibles is the value of informed and objective opinion.

A representative of one Malaysian company involved in cross border alliance suggested that a major gain from the alliances was having someone to talk to, on strategic and operational matters, who could be trusted, who had understanding, but was not part of your organization. He reported that, when alliance partners present options, they do not see the issue through the lens of your organization’s corporate culture, nor need they be constrained by your organization’s hierarchy or micro politics. The same issue was raised by the previously mentioned Malaysian company Chief Executive Officer. During the longish gestation period, all participants enjoyed the service of the group as a sounding board – informed, favourably disposed, but objective. Another way of expressing this is to say that the relationship preceded the specifics, and may come to be valued more than the specifics. Another relative intangible that was praised in many quarters was the gain from transferring staff. One Malaysian company, for instance, stated that a number of young staff went to work in their partner’s home country and vice versa; what is more, personnel exchanges are not only between the respective head offices but between subsidiaries as well. Indeed the interviews provided numerous examples of these cross
border staff exchanges. Taking the interview testimonies collectively their staff exchanges were praised on three grounds:

1. they helped to cement the alliance;
2. they gave to staff, often quite young, a new perspective on the dynamics of their industry, one derived from another organization in another country;
3. cross border exchanges were prized as episodes in cross-cultural development; if one could learn to understand and perform effectively in the corporate and national culture of an alliance partner then a gain in personal development was being achieved.

The above findings suggested that, once some cross cultural development has been achieved, one is better equipped to perform in a ‘third party’ country. So how, for instance, do you prepare young Malaysian employees to staff initiatives in Europe? By giving them experiences in another European country first.

Eight publications with detailed lists of potential partners’ contributions or “potential needs of partners” were found in the literature: Stopford and Wells (1972), Raveed and Renforth (1983) and Beamish (1987; 1994), Geringer (1991), Erden (1997), Glaister and Buckley (1997), Dong et al. (1997) and De Mattos, Goncalves, Neto and Sanderson, (2001). From the aforementioned studies, a list of 18 most relevant contributions from partners was compiled. The relative ranks of contribution from the local partner from the perspective of Malaysian companies are shown in Figure 5.2 while the relative ranks of contributions from the foreign partner are shown in Figure 5.3. Although the most
important local partner potential contributions, such as ‘general knowledge’ and ‘faster entry and access to market’ are predicted in the literature, ‘political intervention’ was placed at a very low position (16th out of 18), contrary to existing literature on developing economies. The importance of the items ‘faster entry into the local market’, considering other existing alternatives to the foreign partner’ (as licensing, exporting, or wholly owned subsidiaries), and ‘access to local markets versus subsidiary’ shows the importance of the market for the foreign investor. The latter results were also predicted in the literature, and reflect the potential of the Malaysian market. As is to be expected, the contribution of the foreign partner seen as most important is technology.

This conclusion is strongly confirmed by the equally highly ranked contributions ‘to bring supplementary product lines to the joint venture’ and ‘to bring managers or experts in production, research and development or other technical area’ (know-how). The next item in importance was ‘access to foreign market for goods produced by the joint venture’. Clearly, technology is seen as essential to the present stage of development of the commercial biotechnology industry in Malaysia. Access to foreign markets is placed in the second position of importance.
### Figure 5.2 Relative Rank of the Potential Contributions from the Local Partner (1=Highest Importance; 18=Lowest Importance)

<table>
<thead>
<tr>
<th>Contributions</th>
<th>Relative rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
<td>17</td>
</tr>
<tr>
<td>Raw materials</td>
<td>10</td>
</tr>
<tr>
<td>General knowledge</td>
<td>1</td>
</tr>
<tr>
<td>Local financing</td>
<td>4</td>
</tr>
<tr>
<td>Local personalities</td>
<td>6</td>
</tr>
<tr>
<td>Political interventions</td>
<td>16</td>
</tr>
<tr>
<td>Political advantages</td>
<td>12</td>
</tr>
<tr>
<td>Governmental requirements</td>
<td>8</td>
</tr>
<tr>
<td>Speed of entry into local market</td>
<td>2</td>
</tr>
<tr>
<td>Access to local markets vs. subsidiary</td>
<td>3</td>
</tr>
<tr>
<td>Local market for foreign partner’s products</td>
<td>5</td>
</tr>
<tr>
<td>Export opportunities</td>
<td>15</td>
</tr>
<tr>
<td>Managing director</td>
<td>9</td>
</tr>
<tr>
<td>Marketing director</td>
<td>7</td>
</tr>
<tr>
<td>Technical personnel</td>
<td>11</td>
</tr>
<tr>
<td>Low cost labour</td>
<td>14</td>
</tr>
<tr>
<td>Technology</td>
<td>18</td>
</tr>
<tr>
<td>Supplementary products</td>
<td>13</td>
</tr>
</tbody>
</table>
Figure 5.3  Relative Rank of Contributions from the Foreign Partner (1=Highest Importance; 11=Lowest Importance)

<table>
<thead>
<tr>
<th>Contributions</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
<td>4</td>
</tr>
<tr>
<td>Raw Materials</td>
<td>7</td>
</tr>
<tr>
<td>General knowledge of foreign country</td>
<td>8</td>
</tr>
<tr>
<td>Political advantage from foreign country</td>
<td>9</td>
</tr>
<tr>
<td>Easier exports (joint venture products)</td>
<td>5</td>
</tr>
<tr>
<td>Easier exports (local partner’s products)</td>
<td>6</td>
</tr>
<tr>
<td>Managing director</td>
<td>11</td>
</tr>
<tr>
<td>Marketing director</td>
<td>10</td>
</tr>
<tr>
<td>Technical personnel</td>
<td>3</td>
</tr>
<tr>
<td>Technology</td>
<td>1</td>
</tr>
<tr>
<td>Supplementary products</td>
<td>2</td>
</tr>
</tbody>
</table>

5.4  Relationship management

Turning to relationship management, it is noticeable that the more recent literature on strategic alliances has begun to mention the importance of personal relations as a necessary condition of success (Faulkner, 1995; Yoshino and Rangan, 1995). This is overwhelmingly confirmed in the interviews as one of the interviewees remarked: “It is all about gelling!” In the same vein, a managing director of one of the Malaysian companies explained with regard to their alliance with a foreign company that there was no legal entity underpinning the alliance and that it was governed simply by the presence of him on the supervisory board of the foreign partner and the corresponding presence of the interviewee’s opposite number on the board of the Malaysian company. Again, the
director of another Malaysian company discussed in the interview the importance of the personal relationship between himself and his foreign counterparts with whom they had a very persuasive and broad fronted strategic alliance. He also spoke of the foreign partner who came to Kuala Lumpur at the start of the alliance as being “fully integrated”. It is also clear that these personal relationships may be decisive for the inception of an alliance. One of the Malaysian companies described the opening and formal exchanges between his company and a potential foreign partner. These exchanges were not decisive “but when our chief executives met” it all fell into place. This interviewee added “we probably don’t need the equity in each other’s company anymore”, his way of signaling the solidarity of the relationship as relationship.

Another of the Malaysian companies underlined not only the importance of a personal relationship between senior people from the allying institutions but the need for continuity of personnel: “And the relationship is important; you don’t want to have deal with different people”. One of the Malaysian companies’ interviewees described the long incubation period for a cross-border alliance, stressing the interpersonal dynamics throughout. It started when senior representatives discussed the idea informally while attending a seminar; the boards of directors all knew each other, the key personnel arranged trips twice a year to progress the negotiations; they ended up playing a round of golf, so that negotiations could continue in an appropriately relaxed ambience. “They are not only talking margins, ratios and percentages; gelling, golfing and personal relationships are as important as equity swaps”. Nevertheless, this thesis does not mean to suggest via these testimonies that there is anything non rational about the importance
ascribed to relationships in these alliances. The point is rather that this is not a conventional manifestation of rationality in a business context. Managing a partnership between Malaysian and their alliance partners is not a trivial undertaking. Operational and cultural difficulties between the two types of companies introduce difficulties specific to this kind of partnership. Nonetheless, the management difficulties may diminish if attention is paid to partner related criteria at the partner selection stage.

If the partner related criteria are considered during the selection stage, it becomes easier to manage the relationship and the chances are that the partnership will be more successful. As in any other partnership, complementarity of the companies’ goals is a necessary condition for success (Hamel, Doz, and Prahalad, 1989). In the partnership of one of the industrial products companies, the goals of each participating company were as follows: the Malaysian company was interested in a continuous presence in the Chinese market; one of the Chinese partners was looking for an international partner with the right product and technology that would allow them to use some of the foreigner’s components in their own products; the other Chinese partner was looking for products of a very good quality that would be less expensive than imports, with knowledge about cold weather conditions. This strong complementarity of goals helped to overcome difficulties that arose in the relationship. One of the consumer goods companies, moreover, asserted that cultural differences were not an issue because all the partners shared common goals.

The initial conditions that make a Malaysian company rely on its partner include the partner’s reputation and its attitude toward the project. The telecommunication company
said that getting to know what the partner had done in the past was an important way to assess the partner’s capabilities. References about the partner from other companies also served this purpose. These Malaysian companies also showed their facilities to their foreign partner counterparts, as well as the results of previous projects in which they had been involved, to demonstrate their capabilities and their reliability. Another signal of the partner’s capabilities mentioned by one company was its attitude toward the project. The perception that the foreign company was enthusiastic about the project and believed the partnership with the Malaysian company represented the best means for carrying it out convinced the Malaysian company of the foreign company’s commitment. Structural determinants of cooperation are called “task bonding” (Murnighan 1994) or “structural bonding” (Han 1991; Wilson and Mummalaneni 1986). They entail the multiplicity of economic, strategic, and functional factors that develop during a relationship and involve explicit business benefits through technology and markets.

Structural bonds reflect irretrievable investments in the relationship, social pressures to maintain it, and contractual barriers. They are linked fundamentally to economic exchange and defined by negotiated transactions (Emerson 1981). Concepts such as reciprocity, trust, opportunism, and forbearance have a particular meaning, given the actors’ cultural settings (Parkhe 1993). When building a relationship, structural bonds must be developed first. Two firms pooling their assets must perceive clear economic and strategic benefits from the association. When developed explicit economic and managerial benefits for the partners are a positive predictor of affective ties between managers (McAllister 1995; Nielson 1998). They are necessary to satisfy a minimum
level of dependability and reliability before a deeper emotional investment can exist the relationship.

The Malaysian companies in the sample believed that success was enhanced when the foreign company relied on the direction set by the Malaysian company. In some cases it seemed critical that the foreign partner realize that the Malaysian company was central for the foreign company to fulfill its expectations for the future, and that its aspirations would be accomplished only through a partnership with the Malaysian company. At a broader level, this awareness of dependence on the Malaysian company led the government to continue privatization and even allow foreign capital investment. The personal qualities of the executives involved in the partnership also clearly influence its success. The interviewee in one of the consumer products companies said that personal traits of the Malaysian managers were key for success, they have to be committed to the project and to people’s relationships, have business aggressiveness, be able to implement evolutionary solutions, and not be driven by the short term. For these managers to bring the project to success, they have to be more concerned with laying the foundations of the business than with growth. Another interviewee stressed that, important as it ordinarily is, affinity among the management team members is even more crucial in a country where there is no external support auxiliary industry such as the packaging industry for the consumer products company and service and maintenance facilities.

Several conclusions can be drawn from this study. First, this study provides evidence that formation of trust and commitment is perceived by relationship bonding, which assists in
building interdependency between Malaysian and foreign partners. These findings suggest that structural bonding (i.e., economic, strategic, and organizational links) and social bonding (i.e., affective and personal) are crucial in building trust and commitment in the relationship between top managers in strategic alliances. Malaysian managers value the relationship as expressed through their perceived high levels of commitment. Lawler and Yoon (1996) define this type of exchange relation as having “relational cohesion”. They suggest that relational cohesion entails uncertainty-reduction processes as compliment to emotional/affective ones. It is the social bonding process that transforms the relation into one of value, which leads to commitment behavior. The results of this study are in substantial agreement with Lawler and Yoon’s theoretical contributions in the sense that it is the social bonding process that makes exchange a target for commitment and trust. It is possible that structural bonding, as an instrumental feature of exchange, drives a substantive relevant aspect of the relationship as shown in this study. Kramer (1991, p.201) finds that these interdependencies promote “psychology group formation” in dyads, thus enhancing the uncertainty reduction process.

Second, relationship building influences trust differently for Malaysian managers. For Malaysian managers, an increase in the level of perceived economic and strategic bonds generates a positive, direct effect in building trust toward their partners. Increasing the economic benefits of the relationship may reduce the degree of ambiguity and anxiety characteristic of the Malaysian culture and thus improve the level of trust. Third, differences on how trust builds in each partner suggest that excessive dependency on a partner may be interpreted as an attempt to exercise power with negative consequences in
managing the relationship. Malaysians welcome praise, recognition, and approval when they perform well. As indicated by the theory of relational cohesion (Lawler and Yoon 1996), continuous long term exchange becomes the self adjusting mechanism because of the emotional/affective component present and is more viable than hierarchy of control strategies suggested by transaction cost theory. This study findings, suggest that social bonding assists in the transformation of the structure of dependency into interdependency. Moreover, high levels of perceived structural bonding from each partner suggest a mutually beneficial exchange in which risk of losing what the partner gives to the relationship is high enough to minimize the use of coercion (Molm 1997).

Fourth, further analysis of the implications of this study suggests that approaching the interdependency between top managers in international strategic alliances from the perspective of a third culture could be insightful, given the different cultural backgrounds of the partners.

Malaysian managers preserve their cultural identity while developing interdependence and interaction. Efforts should focus on how to manage the relationship from the perspective of a third culture. Previous research has suggested the adequacy of this approach (Chen and Meindl 1998). Conflict resolution may be possible when establishing this third culture. A third culture suggests a renegotiation and synthesis of the deep components of culture experience-attitudes, values and mores (Casmir 1993), including sharing meanings and actions between communicators, becoming more inclusive than the original ones, and facilitating the development of relationships by providing common communicative ground. This new culture is defined with norms and accepted behavior
that guide future interactions. Affective and emotional elements are necessary for Malaysian managers to process and build a trusting relationship with foreign partners. When making decisions, Malaysians show a predominance of emotional states bundled with sensibility and pride. If cultural distance contributes in building miscommunication, distrust, and disconnected and distant interpersonal relationships, this is the time to focus on intercultural fit as a prerequisite to relationship commitment.

Hofstede’s (1997, 1980) and subsequent studies enhances this thesis understanding of organizational culture in developing countries. Figure 5.4 depicts the value indexes of relevant developing countries with similar context to Malaysia.

**Figure 5.4  Hofstede’s value index of five dimensions in selected developing countries**

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Power Distance</th>
<th>Individualism</th>
<th>Masculinity</th>
<th>Uncertainty Avoidance</th>
<th>Long-Term Orientation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malaysia</td>
<td>104</td>
<td>26</td>
<td>50</td>
<td>36</td>
<td>-</td>
</tr>
<tr>
<td>Philippines</td>
<td>94</td>
<td>32</td>
<td>64</td>
<td>44</td>
<td>19</td>
</tr>
<tr>
<td>Indonesia</td>
<td>78</td>
<td>14</td>
<td>46</td>
<td>48</td>
<td>-</td>
</tr>
<tr>
<td>Thailand</td>
<td>64</td>
<td>20</td>
<td>34</td>
<td>64</td>
<td>56</td>
</tr>
<tr>
<td>West Africa</td>
<td>77</td>
<td>20</td>
<td>46</td>
<td>54</td>
<td>-</td>
</tr>
<tr>
<td>East Africa</td>
<td>64</td>
<td>38</td>
<td>41</td>
<td>52</td>
<td>-</td>
</tr>
<tr>
<td>Arab countries</td>
<td>64</td>
<td>38</td>
<td>53</td>
<td>68</td>
<td>-</td>
</tr>
<tr>
<td>Average</td>
<td>80.14</td>
<td>26.86</td>
<td>47.71</td>
<td>52.29</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Hofstede (1997:26,53,84,113,166)

As shown in Figure 5.4, the power distance indexes of developing countries are consistently higher than Western countries both by individual country standard and by the average of the two groups of countries. This thesis finding generally find support in the work of others in international management, particularly Punnett’s (1989) cluster analysis, Kluckhohn and Strodtbeck’s (1961) value orientation model, Hall’s (1976) high
versus low context culture framework, and Gannon’s (1984) metaphors. Although Hofstede’s study is useful generally for the purposes of this thesis it must be acknowledged that his findings may reflect only a snapshot of evolving cultures and because it was undertaken in 1980, faces the danger of being dated.

5.5 Difficulties encountered

Two main sources of difficulties, and thus hindrances to success, are the operational and cultural differences between Malaysian and their foreign alliance partners, with the cultural having a key impact on the operational. For instance, establishing some orientation toward results presented great difficulties among alliance partners and Malaysian companies. The latter feel a stronger pressure to achieve a certain goal that has been set, and have a keen awareness of time. This awareness results in concern for progress toward goals, although not necessarily with short term myopia. In contrast, while alliance partners are conscious of a goal to be reached, they do not seem to feel the time pressure or to be diligent in taking steps to achieve that goal. This led one manager to state that goal orientation was a second step after the alliance partner had perceived the impact of the operational performance on their rewards. Likewise, they seem not to take the initiative to solve problems that crop up; rather, they present them to the Malaysian partner with no suggestions for solutions. This happens at all levels in the organization. For example, a manager in a manufacturing company described the difficulties they faced in giving workers in the production line responsibility for fixing problems in the line. Another described how difficult it was to show people that they have to make their own
decisions and assume certain responsibilities even, for example, for the general manager’s driver to decide whether to fill the car with petrol.

Operational differences in the way of running a business stem from drastically different concepts of a company and the functions it is expected to perform. To Malaysian managers, it is a well known fact that a company’s purpose is to provide some good or service and, in so doing, to make some profit. In certain parts of the world, however, according to the interviewees, the purpose of the company was to serve their own centralized and planned economy by complying with some production standards. For example, it was stated that in centralised economy, the partner initially considered that the more people were employed, the greater the profit would be. The foreign partner defended the position that labour was not a cost component to be included in the profit and loss statement. These radically different assumptions translate into important differences in management practices that, when brought together, engender difficulties. Particular areas in which business practices differed and that brought difficulties in managing the partnerships include price setting, investment policies, cost analysis and control, quality control, and understanding the organizational structure.

Bureaucratisation is another contextual condition that poses difficulties at the operational level. In several cases, the interviewees explained that discussions with representatives from the local partner were lengthy and ineffective because of the need to follow bureaucratic procedures that drew out the time necessary to make a decision. In one case, negotiation for the joint ventures was not carried out directly with the partner company
but with a governmental committee. The negotiation, with many ups and downs, was hard to conclude.

5.6 Trust building

Building inter-partner trust as an aspect of managing the relationship deserves particular attention. For a partnership to be formed there must be some initial trust between the companies involved. As time passes, trust may be enhanced or destroyed (Gill and Butler, 1996). In the early stages, the idea of trust seems akin to that of reliability. It takes time and interactions to build confidence in the partner’s good faith.

All interviewees unanimously agreed that legal contracts play no significant role in the process of trust building. A few explained that the contract had been carefully designed by lawyers, and every detail had been studied, discussed, and signed; the contract, however, was then set aside and did not govern the relationship. While it is necessary to move prudently and to have a good, tight contract, this is by no means sufficient. The contract is the basis on which the partnership is developed. The challenge is to make it alive, but nobody will enforce it. One of the interviewees thought that contracts are 100 percent effective when they bind institutions other than private companies; however, contracts between private institutions may work out, but they may also fail and prove useless. The fault lies not in the contract itself, but rather in the environmental conditions—namely, that there is no market to sell either the shares or the specific assets in case one partner wants to abandon the venture.
Malaysian companies also face difficulties in assessing their counterparts’ trustworthiness. In particular, there are misunderstandings regarding commitment to the given word. While Malaysian companies may consider a verbal agreement binding, this does not seem to be the case to some of their foreign partners. Several of our interviewees described verbal agreements that had been reached one day and ignored the next. Language itself presents barriers to communication that make relationships harder, especially when a translator or interpreter is needed. Direct contact is important in building the relationship. One manager explained that he preferred his own poor English language over using an interpreter. A good interface becomes very important. Often, it is difficult for Malaysian companies to assess the validity of the data provided by the foreign company counterpart; it then becomes critical to have a “feeling” for the company.

Over time, the interactions between the partners help shape a deeper trust or else they destroy it. This process of trust building is influenced by how decision making is carried out, and by the companies’ attitude toward conflict resolution. Decision making by consensus involves lengthy discussion, but it brings the partners’ attitudes closer one to the other. One company said they never made majority decisions; instead they always try to build a consensus respecting the foreign company’s position. Another company said they try to reach a consensus, but up to a point. In some cases where it seemed impossible to overcome conflict and to reach an agreement, they used their voting rights. However, from the Malaysian companies’ perspective, it was difficult for the foreign partner to understand the rights of ownership, and that the qualified vote of ownership
representatives has the last word on particular issues. Interpersonal relationships become the cornerstone of trust building. Interpersonal relationships develop over time. To Malaysian companies, some foreign companies may seem distrustful. The reasons why Malaysian companies may not trust foreign companies include the country’s history and the negative impression of capitalism left by the earlier behavior of foreign companies’ entrant into partnership. Recent or distant past conflicts and exploitative relationships with others tend to linger on in a nation’s collective memory (Tayeb, 2000). As a result, there is some resentment and skepticism toward the foreign company. Malaysian companies also, however, seem to appreciate a true friendship and distinguish this one from a mere forbearance born out of pure economic interests (Buckley and Casson, 1988). Whether their motives were the reduction of production costs or the pursuit of market opportunities, the eighteen Malaysian companies in this study sought partners in a similar fashion by searching a partner they can trust and build relationship and also by exploiting their existing ties with others.

The specific ties observed in the sample were as idiosyncratic as the strategic alliances themselves. Across the sample the most common ties were those where investors relied on their existing business connections. An implicit assumption in the literature on strategic partner selection is that the initial identification process consists of the following stages: 1) identifying those characteristics desired in a potential partner, (2) determining the appropriate channels or information sources to identify likely candidates, and (3) approaching the right prospects accordingly. In no case studied was this pattern of behavior observed. The foreign partner was first approached either by an interested
partner or an entrepreneurial intermediary. In some of these case studies, there was not even a motive to form a joint venture until after contact had been made. However, those Malaysian companies that did take the initiative to search for foreign partners generally did so by exploiting their existing connections.

*It is hard to say whether you can trust anybody unless you have had the experience of working with him. We had not worked together before. I think the trust is based on the fact that I had known him for over two years before we established this joint venture. After two years of observation, I felt comfortable that I had a good understanding of him.*

In no case studied was the identification of partners facilitated by formal market research. When searching for alliance partners the informants in this study relied heavily on their existing connections with others. This is not to say that informants did not refer to economic criteria when explaining their selection process. Often they did. But in every such case it can be shown that the decisive factor in the selection process was more social than economic. In light of this, such firms economize by exploiting their existing sources of information, namely their interpersonal networks. Another explanation is the “Malaysia experience” argument which suggests that those who have had prior experience in the market are better able to identify potential alliance partners. Those without such experience will have to rely on intermediaries such as trade promoting agencies or government departments to either make introductions or provide a short list of suitable candidates. Repeatedly in the interviews the critical ingredient of “trust” was identified as having driven the selection decision. One Malaysian company Chief Executive Officer spoke eloquently on this issue by saying that in his business ‘trust’ is a key element. According to him, even with good contacts, knowledge and know-how are two crucial ingredients to uphold this trust. While the full spectrum of social ties was
evident in the sample, these existing links served primarily as conduits for communicating information regarding the identification and trustworthiness of potential partners, rather than as platforms on which to engage in a partnership. Perhaps the best explanation for the case study evidence is that Malaysian companies adopt a simplistic approach in their search for international alliance partners. Instead of spending significant resources on a comprehensive search based on information sourced from a variety of channels and culminating in the identification of the best choice from among a large list of alternatives, the investors in this study relied on more informal information sources, considered very few alternatives, and generally chose partners considered to be “good enough”. The high level of uncertainty in the investment environment combined with the paucity of good quality information regarding the risk levels of different investment alternatives compelled the decision makers in this study to exploit their social networks in both their search for and evaluation of potential alliance partners.

Consistent with Granovetter’s (1973) finding, weak ties or acquaintances provided investors with the greatest amount of information regarding investment alternatives. However, consistent with the claims of Burt (1992), Uzzi (1996) and others, strong ties between intimates provided a better base for establishing the trustworthiness of potential partners and embedding new ventures in an initial stock of trust appropriated from preexisting relationships. The cross case findings of this exploratory investigation support the idea that social networks provide a valuable resource for reducing international strategic alliances partner search costs. Specifically, the findings revealed that, while weakly linked bridge ties are valuable in identifying potential partners, searches based on
strong ties tend to be shorter and provide a more robust basis for inter-partner cooperation. In the context of strategic alliances, a potential investor may be expected to rely on existing ties with others when those ties expedite the diffusion of market information across international boundaries (Ellis, 2000; Rangan, 2000). Rather than trying to identify the ideal partner in the market, investors will limit their search to those potential partners about whom they have the greatest knowledge and then select the best choice from among this restricted set (Podolny, 1994). From this, it can be inferred that the identification of familiar partners negates some of the need for a thorough evaluation as the candidates’ traits are already known to the investor. Alliances built on trust enjoy a number of advantages because in the absence of such a foundation each partner will be more tentative in making contributions and more circumspect in hedging against opportunism (Madhok, 1995).

Connecting these two ideas leads logically to the conclusion that alliances based on strong ties will exhibit higher levels of inter-firm cooperation. In summary, the role alliance managers’ play in the alliance management process can never be undervalued. As demonstrated by the cases in this thesis, what matters most are not the nicely worded legal agreements and initial partner compatibility, but how interaction is actually managed, because continuous realignment in the strategy needs to be a given rather than an option. Hence it is imperative for an alliance to demonstrate some early satisfactory results so as to keep partners on side.
5.7 Underlying Forces Driving Malaysian Companies into Partnerships

The literature in Chapter three has identified some key driving forces for alliance partnerships. These have included globalization, market access, risk and uncertainty, access to technological skills, response to increasing competition and the need to consolidate market position. Data collected confirmed that a number of objectives for alliance entry existed in line with those noted from the literature. These objectives were categorized into:

1) Product focused drivers – encompassing those objectives associated with the need to develop new, or broaden current, product/service offerings and bring them to market ahead of the competition.

2) Market forces drivers – which included those objectives relating to the need to establish, or be part of, a large global presence, to gain market knowledge and size, ensure competitive defence and/or to deal with regulatory and political barriers to new market entry.

3) Financially focused drivers – referring to objectives associated with a means of maintaining, or improving, the individual firm’s financial position under given competitive circumstances (see Figure 5.5).

Nevertheless, it should be noted that these categories were not mutually exclusive and many companies evidenced more than one objective in the data collected.
Examination of the data further showed that the overriding aim for many respondents was the need to retain position and profit margins by entering and operating within one of the growing networks of ‘blocks’ created within the respective industries:

*We cannot compete with everyone. We end up having mega blocks as others ally resulting in block competition of big systems. We need to be in these systems.*

Thus, the partnership response within Malaysian companies demonstrated a direct link with the increasing competitiveness and dynamics of the business environment in which these firms operate. However, it was found that for some there was a reactive aspect overriding their approach to the alliance. For others the alliance strategy was used as a more positive and driven opportunity to move forwards. Further, the majority of evidence, collected, showed that, financial objectives, alongside market focused objectives, took priority as key drivers for entry into an alliance partnership. Once established, however, product focused objectives were then pursued by the more
productive relationships, but were rarely a sole driving force for the partnership at the beginning.

5.7.1 The level of Uniqueness

The literature in Chapter three has suggested that, to varying extents, all resources and capabilities are unique due to the different levels of efficiency, utility or superiority with which they are used by a particular organization. It is the level of uniqueness that can, therefore, influence the cooperative or competitive intent of a partner firm. A number of factors were identified from the data which influenced the extent to which a particular key skill or competence might be considered to be unique. The most significant included the reputation of the partner, the relative size of the partner firm, the existing network the partner firm belonged to, and the cultural understanding or locational advantage of a particular geographic region. These characteristics could reduce alternative options for the entrant firm. From the data collected, six companies identified that some level of uniqueness did exist in terms of a partner firm’s market presence, thus strongly relating this driver to locational access or existing network entry. This significantly limited the choice of partner:

_We don’t come empty handed. We come along and say if you let us in you will become a member of a world wide network. We have 10 operations around the world._

A further three companies suggested that skills development was partially specific and therefore to some extent reliant upon the selected partner. This most frequently related to a particular partner’s skill of operating within, or understanding of, the local market. An additional two companies noted an element of uniqueness in respect of technology
development. In these cases the partner firm was viewed as critical in providing a key part of the technological skills relevant to the relationship. A further six companies involved in the relationships recognized that both partners contributed unique skills or competencies to the relationship. They were thus pursuing objectives which could not be achieved through another partner. These relationships were planned to remain stable with no anticipation of take over or disbandment by either firm involved:

_Both of us are equal partners, each has one element which is needed by the other for them to work, this provides a good symmetry, neither is dominant._

It was therefore considered that the level of uniqueness of a key skill or competence can significantly influence the level of competitive or cooperative intent of an entrant partner. However, where both partners are characterized by equally high level of unique resources or competencies, this can encourage a higher level of stability within the venture and in that context both competitive and cooperative approaches may be generated within a relationship by this driver.

### 5.7.2 The Level of Value

The value of a key resource or capability of a partner firm had been identified from the literature as influencing the level of competitive and cooperative intent adopted by the entrant partner. Analysis of the population data indicated that a significant number of objectives associated with the market focused category of drivers were viewed by respondents as highly valuable. Market presence was noted in seventeen companies interviewed, with gaining of market size, the ability to leapfrog political barriers, and achieving competitive defence all cited in eight companies interviewed:
It has cost us very few international customers but we have been able to get a world wide distributor through our partner, so this is value added success around the world.

Noticeably, three of the respondents in this category identified value as being fundamental to their individual organization, rather than to the mutual partnership. Twelve respondents identified a high level of value associated with the product focused category of drivers. However, the emphasis upon individual rather than mutual value was even higher here, with thirteen respondents citing technology development, and 100 per cent of respondents noting that individual acquisition of skills development, should it occur, would be most valuable when transferred to their own organization, rather than as part of the mutual relationship:

*It is not only cultural awareness, but in technical skills, in economic, taxation, law etc, all have to be improved to benefit the organization, this is our aim. Alliances allow skills gain, it is an element.*

A number of factors were cited which were seen to limit the extent to which value could be transferred to an individual partner. Of the responses, five and three companies respectively cited the scope and size of respective partner as being a key limitation in terms of value creation to the individual firm. This was largely in relation to the broadening of the product and service range, and to gaining market size, presence and knowledge in a previously unrepresented geographical or product area. Also, three companies noted the cost involved and the consequent cost/benefit of the investment in terms of its perceived future contribution to the organization:

*The value our partner brings is significant. We cannot transfer or imitate this as costs are too high.*
Synergies already generated by the mutual relationship, regulatory barriers and the pace at which transfer could be undertaken were also noted as key limiting factors. Thus, it may be suggested that it is the value as perceived by the entrant firm which will influence the extent to which a competitive approach will be adopted by that partner. However, this value will be judged in relation to the benefits/limitations of transfer which are identified. Analysis of the data therefore suggested that the extent of the perceived relative value of a partner firm’s key resources and capabilities can contribute towards a cooperative/competitive intent to be pursued by an entrant partner.

5.7.3 The Level of Transparency

The level of openness, or transparency of a partner firm, the literature suggests, will have a direct influence upon the realizability of a cooperative and competitive approach by an entrant partner. Initial investigation of this aspect focused on identifying the factors in a relationship that influenced transparency. These were found to operate at two different levels. At one level was those factors which were determined by the initial assumptions and agreements of the partnership, and a second level could be associated more with ongoing operational issues. Both levels are discussed in detail below. From the initial assumptions level of factors, the most frequently noted in the dataset was the perceived permanence of the partnership. This was thought to encourage a more flexible and open approach to the partnership and encouraged more commitment although it could take time to achieve. Equity investment was also viewed as a tangible sign of permanence in this respect:
It is felt that equity involvement produces longer lasting links. This creates a symbolic value and strengthens the relationships. The learning aspect is existent all the time but the overall aim is to achieve complementarity and aim to develop together.

Trust and clear recognition of expected mutual benefit was also noted by many respondents respectively as encouraging a greater level of openness and cooperation within the relationship:

We also have a China venture which is not making much at present it has no focus on gaining trust and loyalty. It is very important that you trust your partners. Doing business is not like playing a game. We are very serious. Many firms in China promise you a lot before joining a venture. Afterwards, they cannot keep the promise.

At the operational or ongoing level, four companies noted that the level of communication had an influence upon the level of transparency which could be achieved. Where this was poor it created barriers, or at the very least extended the length of time needed to gain expected returns from the partnership. Emphasis upon staff exchange and joint training were also noted by three of the respondents:

You need to make sure that the key people in the office are experienced to other people in the partnership, not isolated. See that people understand they are part of a big family.

The need for regularity and frequency of meetings, alongside the need to establish and develop a good operational structure for the partnership where clear mutual goals were identified and supported were also seen as having a direct bearing on transparency levels. The data also evidenced that different levels of transparency could be attributed to different industries. Levels of transparency were considered to be relatively lower in the telecommunications industry, than with the airline or manufacturing industries, with respondent from the telecommunications sector registering disappointing levels of
transfer achieved against expectations. As this sector is currently characterized by a greater level of competitive dynamics and environmental uncertainty, this is likely to be a reflection of a more defensive stance by firms in this industry. Thus, it was deduced from the data that the level of transparency of a partner firm can enable or disable the competitive intent of an entrant partner. However, the extent to which this is seen to occur will depend upon the original expectation level set by the entrant partner, and will be influenced by the dynamic context of the industry environment.

5.7.4 The Level of Cultural Compatibility

Literature on business partnerships identified that national and/or corporate differences can have impact on the ability of either partner to realize a chosen cooperative or competitive approach. Where low levels of compatibility exist this can encourage a lack of commitment to long term relationships and, therefore, facilitate a competitive perspective. Conversely where high levels of compatibility are evident, a longer term cooperative approach can be more easily established. Analysis of the sample data showed that eleven companies noted corporate culture as significant in forming and maintaining a good relationship, whilst seven companies identified the need for high levels of national culture compatibility in this context. Problems stemming from poor national and corporate culture were acknowledged in four companies, which caused a strain on the relationship:

You experience a different business culture. If someone with a German business culture is confronted in a meeting, the German tends to be careful, but UK and US people tend to typically more open. The partner is not a typical to our organization culture, though it is very conservative, they may have to change.
Despite fairly widespread recognition of the problems associated with cultural incompatibility, the interview data showed that a number of factors acted to limit the possible choice of partner, thus sometimes leading to little alternative for a firm than to enter a partnership with some level of recognized incompatibility existent. The most significant of these was the need to gain agreement from, and availability of, a chosen partner. Thus, there was a need for both partners to recognize potential benefits from the relationship. The relative size of the partner was a further recognized limiter of partner choice. Where a culturally compatible partner was relatively small, it was often rejected due to its inability to offer the size advantages being sought. Conversely, a much larger partner could impose too much control or dominates a smaller organization:

*Governments and large organizations like to deal with other large organizations. It is difficult for small companies to make alliances. Cultural differences can get in the way.*

The level at which the agreement for partnerships was made, alongside geographical/market requirements and language restrictions, are also influencing factors on partner choice, thus affecting the selection process further:

*The partner is strong in Germany, we can use this. Also politics precluded an alternative of working with a non German company. You need them to lobby for you in that country.*

Despite these limitations, evidence from the interview confirmed that where partners had achieved good cultural matches, this had a strong positive impact on intent realization. Of respondents pursuing positive, long term cooperative and competitive learning approaches, fifteen companies noted a high level of corporate and national compatibility. Of those firms that reported low levels of corporate and national compatibility, they were
pursuing short-term competitive intents focusing on skill or competence acquisition. For some, cultural incompatibility had developed over time as both partners had grown apart. As a result fewer benefits were being gained by the partners and increasingly competitive approaches could be seen to be developing with some of these:

*There is also a difference in culture now. We used to have a common interest. Everyone was working for the same thing. Now we all have a different philosophy.*

Exposure to, and training in, cross cultural management skills enhances the alliance management process. This allows partners to appreciate differences and to work on common interests, rather than to focus on faultfinding. The ability to focus on the big picture, while simultaneously tracking operational or process issues, is an alliance art that managers need to master. It is, therefore, suggested from the evidence summarized above, that although sometimes difficult in reality to achieve, cultural compatibility does influence the extent to which a cooperative/competitive intent can be pursued within a partnership.

### 5.7.5 The Level of Experience

It has been argued that a higher level of experience of partnering will lead to increasing levels of confidence and understanding of how to manage and use the relationship to the best advantage. It is therefore worth considering the influence of experience upon the realization of an entrant partner’s intent. The data was analysed to compare different levels of experience within the population. Of the respondents, eleven companies said they had high or significant levels of experience in partnering (classified as 10 years and over). At the lower end, only four companies felt they were inexperienced in this respect.
(classified as less than 5 years). In relation to the approaches to the partnership pursued, six of the firms with high or significant levels of experience were pursuing a complex, stable cooperative and competitive learning approach to the relationship. These firms were planning to gaining from long term synergies of the partnership and also benefiting from skill or technology exchange. Only one of the inexperienced firms was in the same position. There was however, evidence that the level of experience should also be considered in connection with the level of learning in an organization. In this respect, size was a relevant factor. Larger organizations appeared to find it more difficult to learn from previous partnership experiences, and to disseminate this throughout the organization. Additionally, poor communication and an unsupportive organizational culture could throw up additional barriers to learning:

*Where people who work for you have experience of bad alliances this is a good learning experience we can use. We do have a meeting which is supposed to look at problems with past ventures as part of its meaning, however I think information on mistakes or where things go wrong with alliances is very badly shared. Although we are trying to learn, we are just not very good at it yet.*

It is clear from the above analysis that the motivation to enter into an alliance is also significantly related to the particular characteristics and experience both of the corporation and its top decision maker and suggests that breath of experience of the company operating internationally is important. The characteristics of the CEO parallel the corporate characteristics to some extent. Successful experience in a variety of environments generates confidence that the CEO is able to cope with a different culture. It would also appear that years of industrial experience for managers is not the same thing as years of experience with strategic alliances. This is consistent with Harrigan’s (1985)
findings that successful management of strategic alliances often requires a different management style from that of the parent company.

It can therefore be considered from the evaluation above that the level of experience of partnering relationships can enable/disable the ability of an entrant firm to exercise to exercise a cooperative or competitive intent. However, the extent to which it does so will also be influenced by the learning ability within the organization.

5.8 Strategic Alliance Motives and Objectives in Malaysia

The investigation reported here strongly supports the point first adumbrated by Tomlison (1970) that the motivating factors for establishing a strategic alliance should be clearly differentiated from the motivating factors involved in partner selection; they are two separate decision processes. This distinction between ‘ends’ and ‘means’ is consistent with psychological theory, (Maslow, 1970; Dichter, 1971), and this distinction, is also related to cultural issues. As Maslow (1970, p.22) says, “two different cultures may provide completely different ways of satisfying a particular desire...Apparently ends in themselves are far more universal than the roads taken to achieve those ends”. This thesis distinction between ‘task related’ factors and ‘partner related’ factors appears to be of importance, and is related to the ends means dichotomy.

An explanation for the use of strategic alliances stems from theories on how strategic behavior influences the competitive positioning of the firm (Kogut, 1988). Porter and Fuller (1986), Contractor and Lorange (1988) and Glaister and Buckley (1996) all
provide catalogues of reasons for joint venture formation from a strategic perspective. Ohmae (1989), Hamel (1991) and Hegedoorn (1995) also provide rich literature in why firms might seek collaboration in their competitive efforts. Several of the same motives are identified by these authors, while some of the motives overlap. The main elements of the motives identified in the literature are outlined below:

1. technological knowledge
2. risk sharing
3. competition
4. complementary resources
5. market access
6. economies of scale
7. conform to host government policies

However, the prior literature gives little indication of what to expect in terms of the relative importance of a set of motivating factors for strategic alliance activity. It may be argued however, that the relative importance of the motives would vary with the nationality of foreign partner. To better understand collaboration patterns, Malaysian companies were queried as to why they ally with a foreign partner (motivations). From the prior literature and discussion based on semi structured interviews with Malaysian companies, a separate set of strategic motives was derived consisting of sixteen motives for Malaysian companies. These included the main motives identified in the literature, while making some adjustments for some of the motives of the Malaysian firms due to their idiosyncratic situation. These adjustments encompassed adding and/or dropping some of the motives in order to form a suitable list of Malaysian firms. The strategic motives of Malaysian firms for strategic alliance formation are set in rank order in Figure 5.6.
Figure 5.6  **Strategic Motivation of Malaysian firms for Strategic Alliance Formation**

<table>
<thead>
<tr>
<th>Motivation</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>To enable high quality production</td>
<td>1</td>
</tr>
<tr>
<td>To facilitate transfer of technology</td>
<td>2</td>
</tr>
<tr>
<td>To cope with industry competition</td>
<td>3</td>
</tr>
<tr>
<td>Enabling faster market entry</td>
<td>4</td>
</tr>
<tr>
<td>To enhance the company’s image</td>
<td>5</td>
</tr>
<tr>
<td>To introduce modern managerial techniques</td>
<td>6</td>
</tr>
<tr>
<td>Resource and capacity usage</td>
<td>7</td>
</tr>
<tr>
<td>Economies of scale</td>
<td>8</td>
</tr>
<tr>
<td>To train local staff/workforce</td>
<td>9</td>
</tr>
<tr>
<td>To benefit from foreign partner’s financial resources</td>
<td>10</td>
</tr>
<tr>
<td>Risk sharing</td>
<td>11</td>
</tr>
<tr>
<td>Exclusive access to inputs</td>
<td>12</td>
</tr>
<tr>
<td>To establish local R&amp;D capabilities</td>
<td>13</td>
</tr>
<tr>
<td>Non transferability of technology by licensing and patents</td>
<td>14</td>
</tr>
<tr>
<td>Potential problems with licensing and patents</td>
<td>15</td>
</tr>
<tr>
<td>To benefit from government incentives</td>
<td>16</td>
</tr>
</tbody>
</table>

To enable high quality production, facilitate transfer of technology, cope with industry competition, enabling faster market entry and enhance the company’s image constitute the first five with the highest degree of importance. It is clear from Figure 5.6 that the highest ranked motives are concerned with transfer of technology and enabling high quality production in order to cope with increasing competition and to achieve market expansion. The second group of strategic motives (those ranked 6 to 9), which are still considered important are concerned with the acquisition of skills, managerial learning
and the efficiency of production. The third and lowest ranked group (10 to 16) consists of a number of distinct motives. The leading motive in the third group is ‘benefit from foreign partner’s financial resources’. The strategic motives of ‘risk sharing’ and ‘exclusive access to inputs’, are not seen as particularly important driving forces. Similarly, the motive of ‘establish local R&D capabilities’ does not feature as being important. Transaction cost specific motives of both ‘non-transferability of technology by licensing and patents’, ‘potential problems with licensing and patents’ and the motive of ‘benefit from government incentives’ are the lowest ranked motivating factors for this sample of Malaysian firms. The finding that economies of scale, resource and capacity usage, exclusive access to inputs and non-transferability of technology by licensing and patents are important for Malaysian firms is not particularly surprising. Most Malaysian companies are operating with low production capacity and remain largely focused on their narrow domestic market.

Malaysia has few companies that are able to hold their own against giant global competitors and the majority of domestic firms are characterized as medium sized businesses that are more vulnerable to weak management and are experiencing low capacity production and low productivity. Therefore, Malaysian companies have turned to strategic alliances as a vehicle to overcome the high manufacturing costs of developing new products and to attain economies of scale in order to cope with increasing competition in the domestic market. In fact strategic alliance formation has been accelerating at a rapid pace particularly in the last decade and now more firms in Malaysia are open to joint venture deals and are searching for suitable partners. For
Malaysian companies, strategic alliances are likely to be more effective means of transferring technology than arm’s length contracts such as licensing and patents. Strategic alliance can enable the Malaysian firms to purchase materials and equipment from the foreign partner and also provides access to technical and managerial skills and the international experience of the foreign multinational.

5.9 Conclusion

The findings arising from the cross case analysis are briefly evaluated against the theoretical summary derived from the extant literature from Chapter three. The discussion reviews the theoretical contributions of the strategic alliance partner selection and alliance management to the extant literature both in the West and Malaysia. This is then followed by insights from the cross case analysis. This exercise is important because a thesis such as this, which uses the case study method, is aimed at deriving theoretical generalisations rather than statistical generalisations (Yin 1994). This process also fulfils theory triangulation to complement the process of data triangulation (Yin 1994; 91-92; Patton 1990) undertaken in the actual research. The cross case analysis and theoretical summary provide the empirical and theoretical base for the conclusions to this thesis in Chapter six.

This study sheds some light on alliance management at the initial stages in partnerships between Malaysian and foreign companies. The researcher explored the task and partner related criteria Malaysian companies use when selecting a foreign partner. Important as they are, task related criteria may be expected to have a lesser weight in the process of
partner selection than partner related criteria do, with the exception of capabilities related to local knowledge. Thus, normally task related criteria do not impose tough constraints on selecting the partner. At the same time, the management difficulties that partnerships usually present due to the fact that two companies are brought together are accentuated by the fact that Malaysian and foreign companies come from very different backgrounds. Since paying attention to partner related criteria may diminish these differences, such criteria gain weight when selecting the partner.

This finding is consistent with Geringer’s finding that the relative importance of selection criteria is contingent upon the strategic context of a partnership (Geringer 1991). In this connection, this study has found that Malaysian firms do not consider every option thus supporting the view of Cyert and March (1963) with regard to managerial decision making. It is also clear from the study that the range of possibilities, in this case the range of possible alliance partners, is restricted in all sorts of ways, some of these unconsciously employed. It also seems to be the case that relationships have pre-eminent place in strategic alliances, and these relationships are poised between being ends and means to ends. Consequently, it can be inferred that this whole phenomenon of strategic alliances is affected by circumstance and opportunity, by chance and sometimes miscalculation.

Managing the relationship encounters difficulties that stem from two main sources namely operational and cultural differences, the latter influencing the former. Attention paid to partner related criteria at the selection stage will affect the initial process of
managing the relationship. While more attention to assessing the ability of both companies to work together will enhance the prospects of the partnership, an adaptation of classical business practices prevailing in the developed countries is also a key for success in Malaysian alliances, with a necessary adaptation in managerial processes such as goal setting, performance monitoring, conflict resolution and information sharing. Finally, one area that deserves special attention is the process of trust building. Legal contracts play no significant role in this process. On the contrary, organizational aspects such as openness in decision making and conflict resolution as well as good interpersonal relationships have an important impact on this process. Results from this study showed that there were some significant differences in the characteristics sought for alliance partners between Malaysian companies and developed countries companies. However, there were also some interesting similarities. Following are important conclusions from this study.

1. Firms in developed countries place heavy emphasis on the financial assets of a partner as well as its intangible resources (to include managerial capabilities, reputation, human resources and unique core competencies). They are also interested in a partner that complements their particular skills and knowledge set. These core skills and knowledge set are often embedded in a firm’s systems and produce the firm’s competitive advantage.

2. Malaysian executives place heavy emphasis on the technical capabilities of a partner, along with other special skills that they can learn from their partner and the partner’s willingness to share its expertise with them. Also, due to the
likely influence of the Malaysian national government, Malaysian firms place strong emphasis on the attractiveness of the partner’s industry.

3. Likely due to the global emphasis on quality, both developed countries and Malaysian managers place importance on a partner’s capabilities to provide quality products and services.

4. Malaysian firms are searching for partners from which they can learn and to which they can provide a mutual benefit.

5. Developed countries’ executives seem to be centred more on achieving their firm’s own goals, with less emphasis on their partner’s benefit.

6. Considering the complete range of important criteria utilized by both sets of managers, there are several similarities in the criteria used (although they may vary somewhat in their importance in partner selection).

Different skill sets between partners can be complementary and lead to successful strategic alliances. On the other hand, many Malaysian firms have shown that they have exemplary managerial capabilities by their ability to successfully compete in global markets. Furthermore, this achievement has produced some large and financially successful firms. Thus, it is likely that a number of Malaysian firms have characteristics desired by potential partners and as such, provide desirable resource profiles. Because complementary goals and resource profiles have been found important to the success of strategic alliances, these findings are of profound importance (Harrigan, 1985).
Alternatively, while the top three criteria from both sets of managers may be met by potential partners from the other country, the fourth criterion on the list may be more difficult to satisfy. For example, it may be a challenge to find a Malaysian partner that has capabilities complementary to those of a OECD (Organisation of Economic Cooperation and Development) from a developed country firm. Likewise, while developed country firms may have the technical capabilities and special skills desired by a Malaysian firm, they may not be willing to allow the Malaysian firm to learn them. Developed country firms may fear that allowing such activity could create a future competitor. Thus, they may attempt to buffer their core capabilities from their partner in an alliance, leading to partner dissatisfaction. As a result, alliances between developed country and Malaysian firms still are likely to be complex and fraught with potential problems. While the results suggest that a number of developed country firms and Malaysian firms may have desirable resource profiles for alliance partners, finding the optimum partner, nonetheless, will be no easy task. The information needed to identify feasible potential partners may be time consuming to obtain. Furthermore, once partners with desired resource profiles are identified, negotiations must be initiated to develop a suitable alliance agreement.

The results of this case study support and extend the Hitt et al (2000) findings by showing that emerging market firms differ in their partner selection criteria based on the institutional environments in which they must operate. In particular, this study found similarities as well as some important differences in alliance partner selection used by Malaysian and developed country managers. This study predicted several differences
based on the institutional frameworks in the two countries and this study predictions’ was largely supported by the results. The results also provide empirical evidence for the influence of the institutional environment on strategic decisions of firms based in another important emerging economy such as Malaysia. The results of this study show that there are differences between Malaysian and developed country preferences for alliance partners. Most of these differences were predicted based on differences in the institutional environments in Malaysia. The two differences seemingly unrelated to the institutional environments were on industry attractiveness and cost of alternatives. Still, majority predictions based specifically on institutional theory for criteria used in alliance partner selection by managers in Malaysia were supported by the results. Therefore, the empirical results of this study suggest that strategic decisions of firms in emerging economy are significantly influenced by the institutional environments in these economies.

Figure 5.7 summarizes the results of this study. The Malaysian firms, as expected, more strongly emphasized partners’ technical capabilities, industry attractiveness, special skills they can learn from partner, willingness to share expertise and capabilities to provide quality in their search for international alliance partner. Partners’ complementary capabilities and managerial capabilities were important and of similar priority to both Malaysia and developed market firms but the cost of alternatives were unimportant to Malaysian firms. The other partner characteristics not mentioned above were important in Malaysia but were of lower priority (as shown in Figure 5.7). Clearly, the results of this research show the importance of both tangible and intangible resources in the selection of
international alliance partners. The financial assets desired in partners by developed market firms are largely tangible. The technical and managerial capabilities desired by Malaysian firms and the unique competencies, market knowledge, and access desired by developed market firms are largely intangible. In fact, several of these intangible resources are based on tacit knowledge. Most are valuable, and because of their tacit and intangible nature, they are difficult to imitate, thereby providing a basis for a competitive advantage (Barney, 1991).

Figure 5.7 Priorities in Selecting Alliance Partners by Market Type

<table>
<thead>
<tr>
<th>Importance/Priority</th>
<th>Malaysian Firms</th>
<th>Developed Country Firms</th>
</tr>
</thead>
</table>
| Important and differential priority | 1) Technical Capabilities  
2) Industry Attractiveness  
3) Special Skills You can Learn from Partner  
4) Willingness to share expertise  
5) Capabilities to provide quality | 1) Financial assets  
2) Managerial capabilities  
3) Capabilities to provide Quality Products/services  
4) Complementarity capabilities  
5) Unique competencies |
| Important and similar priority | 1) Complementarity capabilities  
2) Managerial capabilities | 1) Complementarity capabilities  
2) Managerial capabilities |
| Important but lower priority | 1) Unique competencies  
2) Market knowledge/access  
3) Previous alliance experience  
4) Intangible assets  
5) Financial assets | 1) Intangible assets  
2) Market knowledge/access  
3) Previous alliance experience  
4) Cost of alternatives  
5) Industry attractiveness |
| Unimportant                | 1) Cost of alternatives  
2) Partner’s ability to acquire skills | 1) Partner’s ability to acquire skills  
2) Technical capabilities |

The results also emphasize the importance of organizational learning as a basis for partner selection. Alliances are perhaps the best means of transferring tacit managerial and technological capabilities (Mowery, Oxley & Silverman, 1996). Thus, Malaysian firms search for partners from which they can learn managerial and technical capabilities. Alliances allow a firm to get close enough to partners to understand even tacit components of their capabilities (Lane & Lubatkin, 1998). Developed country firms also seek to gain local market knowledge and perhaps the unique competencies of partners.
The focus on organizational learning in alliance decisions is shown by the fact that both Malaysian and developed country firms placed importance on the willingness of partners to share their expertise and on special skills they could learn from partners. Thus, firms involved in alliances seek to learn from the experience of others, one of the most productive means of organizational learning, according to March and Levitt (1999). Lane and Lubatkin (1998) suggested that this form of organizational learning often has a higher probability of producing a competitive advantage because it allows the transfer of tacit knowledge. Furthermore, other forms of learning such as written materials require the information to be fully articulable and thus available to all others including competitors.

Therefore, these other forms of learning are not rare, and are less likely to produce a competitive advantage. Learning from the experiences of others can provide significant benefits for an organization, but it can be difficult to know who has the most useful or applicable knowledge. Knowledge is acquired from many sources; from within the firm; from other firms; or from competitors and channel partners. This thesis also argues that partner similarity aids the search through a universe of potential knowledge sources. Indeed research on strategic alliances (Simonin, 1999) and strategic groups (Dranove, Peteraf and Shanley, 1998) suggests that firms with common business strategies may be better aligned to transfer knowledge across organizational boundaries. Strategic similarity has also been shown to promote better performance in horizontal mergers (Ramaswamy, 1997). Results from the interviews indicate that this transfer happened most often between firms sharing similar strategies and problems. Two distinct strategies existed in
the sample of Malaysian companies and that of foreign partner and both were aware of these two strategies. In answering a free response question, participants described one group of foreign partners as “concerned with running a tight ship” and “interested in making a quality product with little waste.” These descriptors seem to fit well with a cost conscious strategy. Respondents similarly described a second group of foreign partners as “concerned with customer response,” “driven to improve company awareness,” “concerned about training,” and “more concerned with quality and image”. This second set of descriptors seems to fit well with an expansion oriented strategy.

Results from the interviews demonstrate that Malaysian companies focused on a similar set of strategies with their foreign partners. These results suggest that it is easier to share knowledge within, as opposed to across, strategy type. The pattern of responses also suggests that business strategy focuses manager attention on specific sets of problems. Selecting a transfer partner based on business strategy similarity seems to be the most accurate way for Malaysian companies to identify others with potentially useful knowledge. Although these results cannot directly demonstrate that managers consciously choose knowledge transfer partners based on strategic similarity, it does show that managers are cognizant of different strategies and, given a choice, tend to align themselves with potential knowledge transfer partners displaying a similar strategy to their own.

The finding that partner company size and its quality of management are relatively more important for Malaysian firms appears to be relatively unsurprising, since the majority of
Malaysian firms are characterized as medium sized by international standard and suffer from lack of effective organization and weak management practices. Managerial expertise is particularly important in Malaysian firms to help acquire up-to-date technological capabilities to be efficient and produce goods of sufficient quality to compete with international firms in their domestic and global markets. The importance of quality for competitiveness in global markets (Sherman and Hitt, 1996) may be the primary reason.

The proliferation of International Standards Organization (ISO) standards worldwide has placed pressure on firms from all countries to improve and maintain their quality. Thus, they search for partners with the technological capabilities they need to enrich their resource endowments. Although some Malaysian firms have adequate infrastructures, they still need access to more financial capital at a reasonable cost. The devaluation of the ringgit (Malaysian currency) post 1997 and economic conditions in Malaysia made it critical for Malaysian firms to seek partners with strong financial assets (Mat Nor, 2003). These firms have been particularly interested in gaining access to capital that has been difficult and costly to obtain from Malaysia’s capital markets. Some Malaysian firms interviewed expressed substantial concerns about the formation of strategic alliances and use of financial capital. Also, some evidence indicates that capital markets respond favourably to strategic alliance announcements (Koh and Venkatratman, 1991; McConnell and Nantell, 1985).
The finding that international experience of partner and relatedness of partner’s business are relatively more important for Malaysian firms tends to partially confirm Demirbag et al.’s (1995) findings that local firms are not only motivated by technology transfer or enabling high quality production but also motivated by other expectations such as enabling international market access and internationalization of their domestic business operations. These findings also provide support for the view that the transfer of technology and access to product constitutes the main task related criteria for developing country local firms when seeking partners from technologically advanced countries for international strategic alliance formation (Datta, 1988; Yan and Gray, 1994; Gillespie and Teegen, 1995; Li and Shenkar, 1997). It is also apparent that Malaysian firms focuses more on partner related selection criteria, a finding which tends to support Arino et al. (1997) study. This indicates that there is a greater consensus among the firms in the sample on the relative importance of partner related selection criteria than on the importance of task related criteria. The relative importance of particular task related criteria will be somewhat specific to the underlying purpose of the strategic alliance. In contrast, particular partner related selection criteria will tend to be more general in nature, implying that the characteristics of a suitable partner will be more universal and will be related much less with the specific activities of the strategic alliance than will task related selection criteria (Glaister, 1997).

The dynamic and complex nature of the strategic alliance can engender both cooperative and competitive responses from the partners involved. These responses can prove to be a decisive factor in establishing the basis of the partnership and, in its potential direction,
orientation and success. This research confirmed that levels of uniqueness and value all contribute towards the overall cooperative/competitive intent with which an entrant partner will view, and attempt to operate within, an alliance relationship. Where a key skill or competence of a partner was considered to be relatively unique, was transferable in some form, and was not mirrored by the other partner’s contribution to the alliance, this could engender a competitive approach by the other partner. In contrast, where transfer proved to be problematic or where both partners brought relatively unique contributions to the relationship, a more mutual longer term, synergistic approach was adopted by both partners. In the more productive of these relationships the competitive aspect of intent was then used as a more positive learning vehicle.

In terms of value, intent was strongly influenced by the extent to which mutual or individual value was considered to provide the greatest benefit, skills and technology transfer tending to be viewed as providing more individual than mutual benefits once the relationship was established. The overall intent adopted was, however, also influenced by the relative size, scope or market or industry influence of the partner. Where this was extensive or the partner had strong network links, the pursued intent tended to be on a more cooperative basis, with the competitive factor used in a more positive, learning approach.

However, it was found that the ability to realize any of these particular strategies needed to be related to the second set of drivers identified from the study. These included the extent to which the partner firm allowed access to its skills and resources (transparency), the complexity, level and type of inter linkages between the two partners, national and
corporate cultural compatibility (within the limitations of choice available), and the prior experience of partnering. In these respects, the level of openness of the partner firm was identified as being relative to the initial expectations of the entrant partner. It could also be reduced where the industry was experiencing highly dynamic and uncertain characteristics. Equally, the level of experience had to have been translated into a learning element within the organization to be relevant in this context.

As shown in Figure 5.6, the alliance managers in this study report a wide range of motivations for allying with foreign firms and from the analysis six major categories of motivations for Malaysian firms to ally with foreign partners can be drawn:

1. **Access to a Foreign Partner’s Technical Expertise**

The most important motivation relates to access to a foreign partner’s expertise, as discussed above, with resources including supplier connections and materials as well as technology and product market knowledge. This motivation is tied closely with a strategic concern for firms in many liberalizing countries. Decades of protected markets constrained Malaysian companies’ access to technological expertise and efficient suppliers. Local suppliers in that era were not subject to the competitive pressures that prioritize responsiveness to customer needs in areas such as consistently high quality products and timely delivery. In post liberalization Malaysia, firms eagerly seek supply relationships with foreign partner firms that have high quality and performance standards. Linkages of this sort are required for these Malaysian firms that themselves now face
competitive pressures that can be addressed through effective supply chain management and assurances of high quality inputs domestically as well as from abroad.

2. **Access to a Foreign Partner’s Marketing Expertise**

Access to a foreign partner’s marketing expertise is the second most important motivation for these Malaysian firms. This factor includes marketing infrastructure and relationships with important customers. Economic liberalization, coupled with advances in communications, has created strong pressures for Malaysian firms to better respond to consumer needs both domestically and internationally. Foreign partners, with greater experience in competitive market places can provide their allies with knowledge that can be transferred to the domestic markets in Malaysia. Domestic markets in Malaysia are of insufficient scale in many industries for production and marketing efficiencies. By accessing a foreign partner’s marketing infrastructure and client bases abroad, these firms can more readily tap into scale advantages as well as new areas for sales growth.

3. **Access to a Foreign Partner’s Financial Resources**

Accessing a foreign partner’s financial resources (capital and credit line) further motivates many of these Malaysian firms to collaborate. This result is not surprising given the prevalence of capital constraints on many Malaysian firms. Domestic credit is scarce, and that which is available tends to be prohibitively costly for these firms. Direct investment in firms tends to be more stable, but implies a loss of control that many Malaysian firms are not willing to cede. By joining forces with capital rich partners, Malaysian allies can access funds whereas maintaining their legal independence.
4. Direct Access to Foreign Markets

Direct access to foreign markets is sought by many Malaysian companies via their alliances with foreign companies by receiving regulatory permission to enter through the alliance and by utilizing the geographic market knowledge of the partner. The concern about regulatory permission is most notable for alliances with firms from countries that are not economically integrated with the home country of the Malaysian firm ally. To access those markets, Malaysian companies must identify a foreign firm that incorporates their components and process their goods into its finished products or jointly develops products to gain access to the foreign partner’s market. In many cases, this takes the form of a joint venture formation. Even where a Malaysian firm can freely enter the foreign partner’s market in regulatory terms, lack of knowledge about the market itself poses a significant barrier to successful entry. Many of these Malaysian companies are new to the global business milieu, and thus lack the experience to know where, when, how and if to adapt their product offerings, promotion, pricing and distribution when entering a given market, such as the Europe. This need to access geographic market knowledge is likely to be most pressing in those markets representing large cultural distances from the Malaysian alliance partner home markets.

5. Risk and Cost Reduction

Risk and cost reduction also motivates Malaysian firms to ally. By partnering with another firm, costs are often shared, reducing the financial investments necessary for any individual firm to undertake a given business venture. Clearly reducing financial investments in the business reduces the downside risk of their loss in the event of
business failure. Another important way in which alliances allow firms to reduce risk is through diversification. By partnering with a firm in a different geographic market and/or different product market, losses in one market may be offset by gains in others, reducing the risk of the partner firm’s overall portfolio of investments. Where firms in an alliance specialize, they reduce costs and risk for the overall venture; each partner has already invested in progress along a given learning curve and the alliance then captures the benefits of this learning from both partners. Finally, by allowing for greater market access, and by avoiding duplication of efforts through rationalization, allying firms can further reduce costs of participating in their joint business.

6. Competitive Move

Lastly, competitive moves also motivated Malaysian companies to collaborate with firms outside their borders. This motivation relates to partnering with the intention of bettering the firm’s potential in competitive field by blocking or co-opting potential competitors. By partnering with other firms, strong entry barriers are created that serve to limit the effective competition in a given product or geographic market. By partnering with a potential competitor, that firm is converted into an ally instead of a firm against which to compete. This finding is consistent with Harrigan (1988) that companies involved in the venture process should, in the main, concentrate on what strategic alliances require to be able to compete effectively.

In the last part of this chapter, the process of theoretical synthesizing was undertaken. This process was then extended to a process of juxtaposing the theoretical insights gained
from the literature review against the findings from the cross case analysis. In so doing, this chapter has fulfilled an important requirement of the case study method, namely the processes of data and theory triangulation. The study’s conclusions, together with answers to the seven research questions and main research problems, can now be elucidated in Chapter six. Implications for policy, practice and future research will also be considered.
CHAPTER 6 CONCLUSIONS

6.1 Introduction

Chapter one introduced the purpose of the thesis and defined the main research problem. Chapter two outlined the basic Malaysian economic framework and specifically looks at the structural transformations that have taken place in the Malaysian economy over the last three decades. The extant literature on strategic alliances and partner selection was reviewed in Chapter three, resulting in the identification of six research questions. Chapter four then identified phenomenology as the appropriate paradigm for this research and subsequently the case study method as the most appropriate strategy for finding answers to the research questions, and therefore the research problem. The justification for the selection of paradigm and method stemmed from the need for specific research that produces rich data to explain the high alliance failure rate worldwide; research on the role that alliance managers play in determining alliance outcome; the fact that no empirical research has been hitherto undertaken on alliance partner selection in Malaysia; and that present research has focused only on preferred managerial aspects of strategic alliances to the neglect of a holistic approach to alliance managerial problems. The cross case analysis of the research data was presented in Chapter five.

The purpose of this chapter is to present the study’s conclusions to the six research questions and main research problem. The implications for policy and practice are also presented and a holistic conceptual model for strategic alliance partner selection deriving from the study is presented in section 6.3 which goes towards the thesis’ contribution to theory. This study’s limitations are discussed and potential areas for future research.
identified. This chapter brings the results emerging from the cross case analysis and the theoretical evaluation in Chapters three and five, to bear on the six research questions and research problem. The presentation of a holistic conceptual model in Figure 6.1 completes the thesis process cycle. In so doing, the thesis fills a major research gap on the subject matter, specifically about developing countries such as Malaysia and generally on the international alliance partner selection process and ultimately international strategic alliance success.

6.2 Conclusions to research questions

6.2.1 Research Question 1

Which key characteristics did Malaysian companies search for in a partnership candidate?

This study sheds some light on management at the initial stages in partnerships between Malaysian and foreign companies. The author explored the task and partner related criteria Malaysian companies use when selecting a foreign partner. Important as they are, task related criteria were found to have a lesser weight in the process of partner selection than partner related criteria do. Thus, task related criteria do not impose tough constraints on selecting the partner, although there are exceptions such as capabilities to local knowledge. At the same time, the management difficulties that partnerships usually present due to the fact that two companies are brought together are accentuated by the fact that Malaysian and foreign companies come from very different backgrounds. Since paying attention to partner related criteria may diminish these differences, such criteria gain weight when selecting the partner. This finding is consistent with Geringer’s (1991) finding that the relative importance of selection criteria is contingent upon the strategic
context of a partnership. The results of this research also support and extend the Hitt et al (2000) findings by showing that emerging firms differ in their partner selection criteria based on the institutional environments in which they must operate. In particular, the author found similarities as well as some important differences in alliance partner selection criteria used by Malaysian and foreign managers. The results of this study show that there are differences between Malaysian and foreign companies’ preferences for alliance partners. The author found significant differences in eight of the fourteen criteria used in alliance partner selection. Most of these differences (five) were predicted based on differences in the institutional environments in Malaysia. The two differences seemingly unrelated to the institutional environments were on industry attractiveness and cost of alternatives. Still, six of seven predictions based specifically on institutional theory for criteria used in alliance partner selection by managers in Malaysia were supported by the results. The different foci in firms from Malaysia are evident in the use of previous alliance experience.

Social connections and relationships are important in Malaysian culture. The importance of these connections is shown in the Malaysian firms’ emphasis on alliance partners’ previous alliance experience. They select partners with whom they can form a long term and trusting relationship, thereby developing social capital. Prior alliance experience provides information on the firm’s performance and reputation for reliability in its alliances. Firms with greater alliance experience are more likely to be trustworthy. Thus, the apparent link between alliance experience and performance (Harbison and Pekar, 1993; Simonin 1997) may be attributable to a firm’s tendency to develop new alliances
with those it already knows (Gulati, 1995). Therefore, the empirical results of this study suggest that strategic decisions of firms in an emerging economy are significantly influenced by the institutional environments. The findings also revealed that in their search for potential alliance partners, none of the Malaysian companies interviewed in this study relied on market research or information procured from official trade promoting agencies. In all cases of partner identification studied, potential partners were identified primarily on the basis of existing social networks which were defined in terms of business and friendship ties. Moreover, this pattern of behavior was observed across a range of firm types and industries, supporting the idea that social networks provide a valuable resource for reducing search costs.

In the initial search and identification process, weak ties between actors were most valuable in terms of generating the largest number of leads. However, where they existed, strong ties expedited the search process and provided a more robust basis for final selection and subsequent inter partner cooperation. Finally, whether identified via strong or weak ties selection outcomes were broadly similar across the sample, indicating that other partner and task related factors are also critical in the strategic alliance partner selection process. The determinants of strategic alliance partners are much more likely to be described by the match of partners’ core competencies (Harrigan, 1988) than in the manner in which they first met. Further research is clearly needed before firm conclusions can be drawn.
6.2.2 Research Question 2

What initial conditions were critical for the future success of the partnership and what were the main differences between the two organizational cultures?

Managing a partnership between Malaysian and foreign companies is not a trivial undertaking. Operational and cultural difficulties between the two types of companies introduce difficulties specific to this kind of partnership. Nonetheless, the operational difficulties may diminish if attention is paid to partner related criteria at the partner selection stage (Segil, 1996; 1997). The initial conditions deemed critical by Malaysian firms are most clearly understood as comprising a definition of the task to be performed, a set of action routines borrowed from the organizational contexts of each partner, a design for the interface between the partners, and a series of expectations about the performance of the alliance and the behavior of one’s partner towards and within it. These initial conditions were observed to facilitate the partner’s learning about the environment of the alliance, how to work together to accomplish the alliance task, their respective skills and each other’s goals.

As the partners engaged into the alliances, and the initial conditions allowed them to start to learn from the joint or coordinated activities and from the interactions with each other, they also started to monitor the alliance for efficiency and each other for equity and adaptability. The cycles of alliances cumulated over time as alliance participants went through a sequence of progressively improving on the initial conditions of the alliance and of making increasingly irreversible commitments to the alliance. They were also willing to make irreversible commitments first, expecting the partner to reciprocate, but using the opportunity to build and test trust. One may argue that the evolution of
collaborative agreements is driven primarily by their initial conditions (Doz, 1996). If these are wrongly configured, no amount of relationship building will compensate for their misspecification.

All cases studied had alliance agreements in place. However, the main differences in organizational cultures between alliances arise when such agreements are juxtaposed with the presence of alliance management skills in particular process issues. In managing process issues, Malaysian firms depend heavily on the use of qualitative information rather than quantitative information to inform important decisions and the development of coping strategies to survive the negative effects of government influence, societal culture and resource deficiencies both at the organizational and environmental levels. The adoption of coping strategies by alliance managers in Malaysia is consistent with previous research findings from studies on Asian business networks (Haley 1997, Haley and Haley 1998). Such strategies tend to evolve over time from within organizations rather than following a formal rational plan, confirming the view of Mitzberg and Quinn (1996) on emerging strategy. Developing country environments tend to encourage improvisation because of resource deficiencies and high environmental turbulence (Dror 1983). This research has demonstrated that governmental and socio cultural factors predominate in the national and local environments. Previous studies concur that governmental intervention often hampers international strategic alliance development from the point of view of foreign businesses (Beamish, 1993; Shenkar, 1990). Even from the perspective of Malaysian firms, such intervention hurts international strategic alliance performance. An important lesson for the Malaysian government and perhaps
governments in other economies as well is the understanding on how to use market or fiscal levers in lieu of administrative interference to boost investment and monitor subsequent activities. It seems that the development of strategic alliance management skills in Malaysia is still at an embryonic stage. The fact that the government of Malaysia is just gearing up to restructure all government linked companies attests to the state of management training in the country.

6.2.3 Research Question 3

What did each partner bring to the partnership to add value?

The contributions from both Malaysian and foreign partners to the partnership are closely connected with the task related criteria for selecting a partner. Thus, we may expect the contributions from Malaysian companies are related to their knowledge of the local conditions and those from foreign companies are related to their knowledge of the business skills and technology access. The main contributions from the foreign companies were their industrial facilities and production capacity as well as their market access. Local facilities provide a basis to start with even if they require renovations. Some additional contributions from foreign companies include the search for a good location and ability to manage the process of securing regulatory approvals. When the latter is done by the local partner or by a specialized local institute, the process speeds up because of the locals’ knowledge of regulation and procedures and personal contacts. The main contributions from Malaysian companies are financial resources. Other contributions from Malaysian companies include experience and credibility and the initiative to undertake the project. Partners’ contributions to alliances are strongly
associated with business negotiations of collaborative arrangements. A list of potential contributions would not only speed up the process of negotiation but would also establish a clear path for discussion and understanding of each other’s views. Both short term and long term expectations over partners’ potential contributions would be expected to directly affect the negotiation process (Ghauri and Usunier, 1996).

6.2.4 Research Question 4

What initial obstacles in the partnership were most difficult to overcome?

Two main sources of obstacles, and thus hindrances to success, are the operational and cultural differences between Malaysian and foreign companies, with the cultural having a key impact on the operational. This happens at all levels in the organization. Operational differences in the way of running a business stem from different concepts of company and the functions it is expected to perform. These radically different assumptions translate into important differences in management practices that, when brought together, engender difficulties. Particular areas in which business practices differed and that brought difficulties in managing the partnerships include price setting, investment policies, cost analysis and control, quality control and understanding the organizational structure. The research confirms the views expressed in the extant literature that developing countries are high in culture context with a strong relationship orientation. Therefore, it is recognized that culture is a strategic issue with a direct bearing on alliance management performance. Increasingly, there is a need to establish cultural fit between the partners’ organizational cultures and with societal culture. The cross case analysis found, however, that alliance managers found it difficult to establish cultural fit between
the partners’ culture and societal culture. As such, the research confirms the views expressed in the extant literature that highly volatile and information void environments buffet alliance process management in developing countries. The cross case analysis reveals that Malaysian firms which adopted formal governance structures were able to effectively manage the process issues of relationship building and process reengineering in order to make alliance management more effective. The research also confirms the theory of networking by Buttery (1992, cited in Buttery et al. 1994:23-24), that posits that there are five imperatives for networking success, and each needs to be operational in tandem with the networking situation. These are: (a) domain overlap, (b) something to offer (c) motivation to join the network, (d) appropriate business climate, and (e) bonding. Importantly, the research shows that in developing country contexts the fourth requirement for an appropriate business environment cannot always be guaranteed and may actually prove intractable for alliance managers.

6.2.5 Research Question 5

Did you feel that the legal contracts were effective to protect your interests?

Malaysian companies unanimously agreed that legal contracts play no significant role in the process of trust building. The contract is the basis on which the partnership is developed. The challenge is to make it alive, but nobody will enforce it. Contracts between private institutions may work out, but they may also fail and prove useless. The fault lies not in the contract itself, but rather in the environmental conditions namely that there is no market to sell either the share or the specific assets in case one partner wants to abandon the venture. This research revealed that alliance agreements are insufficient
mechanisms for effective alliance management and that governance structures ensures the management of interaction.

6.2.6 Research Question 6

What kind of things did you identify in your partner that made you trust it, what kind of actions or initiatives did you take to accelerate the process of trust building and what factors influenced this process?

Building inter-partner trust as an aspect of managing the relationship deserves particular attention. For a partnership to be formed there must be some initial trust between the companies involved. As time passes, trust may be enhanced or destroyed (Gill and Butler, 1996). In the early stages, the idea of trust seems akin to that of reliability. It takes time and interactions to build confidence in the partner’s good faith. Malaysian companies face difficulties in assessing their counterparts’ trustworthiness. In particular, there are misunderstandings regarding commitment to the given word or unwritten aspects of the contract. For example, foreign firms were occasionally found to be less reluctant to perform in terms of providing access to technology to their Malaysian partners. As such, a good interface becomes very important. Often, it is difficult for Malaysian companies to assess the validity of the figures provided by their foreign counterparts; it then becomes critical to have a “feeling” for the company. Over time, the interactions between the partners help shape a deeper trust or else they destroy it. This process of trust building is influenced by how decision making is carried out, and by the companies’ attitude toward conflict resolution. Decision making by consensus involves lengthy discussion, but it brings the partners’ attitudes closer to each other. Interpersonal relationships become the cornerstone of trust building and develop over time. Malaysian firms’ discussion of trust
centred on three themes: communication, competition and integrity. For Malaysian firms, integrity of alliance partner (honesty, opportunistic behavior, underlying motives) represented a dominant concern and assumed the largest role in destroying trust. Fear of hidden agendas and ulterior motives preoccupied managers of Malaysian firms. They identified communication frequency and openness as important drivers of trust. As well as being mechanisms for minimizing transaction costs and pooling complementary assets, strategic alliances are also vehicles for transferring knowledge between firms (Lyles and Salk, 1996). Before the strategic aspects of any proposed alliance can be assessed, knowledge germane to the evaluation of potential partners must first be exchanged. This study has also highlighted the role social ties play in the early stages of that knowledge transfer process.

Research on international business research has begun to uncover a connection between social structures and the pursuit of opportunities for international exchange and investment (e.g., Ellis, 2000; Rangan, 2000). Consistent with that work this study supports the view that economic exchange across borders follows information exchange which in turn, reflects antecedent network connections. Despite pressures for globalization, knowledge barriers persist creating “information insufficiencies” as indicated in the visible stickiness of trade flows (Rangan 2000). In such settings boundary spanning networks provide valuable conduits for information and create platforms for building trust.
6.2.7 Research Question 7

How important were the interpersonal relationships and how did the relationships change as time went on?

Managing the relationship encounters difficulties that stem from two main sources namely operational and cultural differences, the latter influencing the former. Attention paid to partner related criteria at the selection stage will affect the initial process of managing the relationship. While more attention to assessing the ability of both companies to work together will enhance the prospects of the partnership, an adaptation of classical business practices prevailing in the West is also a key for success in Malaysian alliances, with a necessary adaptation in managerial processes such as goal setting, performance monitoring, conflict resolution, and information sharing.

One particular area that deserves special attention in improving interpersonal relationship is the process of trust building. Legal contracts play no significant role in the process. On the contrary, organizational aspects such as openness in decision making and conflict resolution as well as good interpersonal relationships have an important impact on this process. Answers to this question are two pronged, entailing strategies that were adopted by alliances to manage the process issues, and the adoption of coping strategies to make up for deficiencies in the business environment, organization component and managerial culture. Appointing senior foreign executives to the board recognized the importance of relationship building in alliances. Malaysia’s relationship culture is characterized by personal contact and exchange obligations. All cases in this study demonstrate that solid personal relationships at both the strategic and operational levels enable alliances to be managed beyond the legal agreements and alliance structure. It is also clear that all cases
had designed governance structures to facilitate these close interactions. The importance of governance design and information technology for interfacing is confirmed in the work of Doz et al. (1998:127-140). At the same time Doz et al. (1998) make the point that few alliance managers understand how to actually move beyond the deal and the structural aspects of alliance design to the active management of alliances in order to create value. This point is showing up in the cases studied for this thesis. The research confirms the views of Doz et al. (1998:127-140) that formal governance structures and design greatly enhance the process management involving joint tasks, productive relationship building, reporting, planning and control, communication, boundary spanning, implementation and the propagation of alliance management skills at both strategic and operational levels.

In conclusion, this thesis contributes a holistic approach to the study of strategic alliances management in a developing country. The thesis has provided answers to the research problem from a developing country perspective by laying out the alliance management strategies adopted by cases in Malaysia relating to the alliance partner selection, alliance environment, organization component, alliance management skills, alliance management culture, and alliance management process. The thesis underscores the utility of strategic alliance (parent discipline) and specifically contributes to the immediate discipline of strategic alliance partner selection by noting that alliance managers in developing countries in particular Malaysia have had to adopt various strategies that include an emphasis on qualitative information rather than quantitative data analysis due to the highly unpredictable and information void environments. In this environment, conventional methods of strategic management have not yet been well developed, but at
the same time questions must be asked about their utility, given that the validity of information has a short life span.

### 6.3 Implications for theory

A new holistic conceptual model for strategic alliance partner selection is presented in this section, modifying the preliminary conceptualisations presented in Chapter three. This model is based on the systems approach of this thesis and synthesizes the theoretical findings of the strategic alliance approach, strategic alliances theory, network theory and relationship approach on strategic alliances presented in Chapter three. Important additions to this model presented in Figure 6.1, emerge from the primary data presented in the case reports and evaluated in Chapter five. The alliance manager’s role is central to this model, since the research confirms the point made in Chapter one that a major cause of business network failure is related to management, particularly where partners are involved (Niederkofler 1991). The model also underscores systems components and strategy. It contributes a new dimension to alliance management by adding the importance of institutional context in the developing country for the purpose of enhancing the alliance performance as exemplified in the cases. The model shows that the management of the alliance depends on how the alliance manager makes sense of the organization environment, organization context, management culture, and management process. For each of these components a strategy emerges, developed either rationally (Glueck 1976) or incrementally (Mintzberg 1979; Mintzberg and Quinn 1996). The cases reveal that in developing country contexts, barriers to alliance management abound which elicits coping strategies from alliance managers. Such strategies are either used for coping with environmental and organizational deficiencies with the intention of
continuing the alliance, or as means for cutting losses where institutional barriers prevent early termination, eventually acting as exit strategies. A description and rationale of the major components of the model is undertaken in the remaining part of this section. The model does not, however, provide a prescription for selecting partners, but offers a framework for what and when certain aspects should be considered. By their nature, projects are unique and a degree of discretion should be used in applying any general model to a particular project. In some cases, some factors will be more important than in other cases and these may need to be considered at different times from those suggested by the model. Nevertheless, the model does present a general strategy to be followed.

Many alliances have been cancelled even after years of negotiations and costly feasibility studies, because of economic factors, changes in goals and so on. The process is highly demanding in terms of energy, time, persistence and diplomatic ability. At any rate, it is better for the money spent on planning to be wasted, rather than greater losses being risked by an unsuccessful alliance.
Figure 6.1  Partner Attributes and Strategic Alliances Success.

- **Alliance Manager**
  - **Partner Attributes**
    - Operation or task related
    - Cooperation or partner related
    - Cash Flow related
      - **Strategic attributes**
        - Marketing competence
        - Relationship building
        - Market position
        - Industrial experience
        - Strategic orientation
        - Corporate image
        - Environmental strategy
      - **Organizational attributes**
        - Organizational leadership
        - Organizational strategy
        - Ownership type
        - Learning ability
        - Foreign experience
        - Human resource skills
        - Cultural fit (acculturation)
        - Institutional fit and trust
      - **Financial Attributes**
        - Profitability
        - Liquidity
        - Asset efficiency
    - Strategic Fit
    - Organizational fit
    - Financial fit
  - Coping strategies/conflict resolution
  - International strategic alliance success
Alliance Manager

The central role of alliance managers in alliance management is confirmed by insights from the strategic management approach (Limerick et al. 1998:91-96; Lorange et al. 1983; Yoshino et al. 1995; Cauley De La Sierra 1995; Child et al. 1998; Doz et al. 1998). Niederkofler (1991:245) notes that the presence of inappropriate liaison managers exacerbates organizational differences between larger and small firms and public and private organizations such as cultural, structural and procedural incompatibilities. Further, Niederkofler (1991:246) specifically notes that alliances which faced difficulties in maintaining strategic and operating fit, had liaison managers who did not possess the appropriate position and skills or, even worse, no liaison manager was appointed. Spekman et al. (1996:347) identified the different roles that alliance managers have to perform in the various stages of the alliance cycle. In developing countries such as Malaysia, where society is highly relationship oriented and with a high culture context, selecting an alliance manager of suitable rank must recognize these factors. The cases also illustrate the importance of involving would be alliance managers early in the negotiation process, the importance of cross cultural management skills and the full backing of parent organizations. Alliance managers in Malaysia also face steep challenges because of cultural and institutional differences.

Partner Attributes

The intercultural and inter-organizational nature of international strategic alliances results in enormous complexity, dynamics and challenges in managing this cross border, hybrid form of organization. One popular argument is that inter partner comparative or
configurational features, variously termed as strategic symmetries (Harrigan, 1985), inter-firm diversity (Parkhe, 1991) or complementary resources and skills (Geringer 1991) create inter partner fit which is expected to generate a synergistic effect on international strategic alliance performance (Luo, 1997). One of the key notions in the international strategic alliance literature is that these additional benefits will accrue only through the retention of a partner who can provide compatible goals, complementary skills, cooperative culture and commensurate risk (Brouthers, Brouthers & Wilkinson, 1995).

Partner selection determines an international strategic alliances mix of skills, knowledge and resources, its operating policies and procedures and its vulnerability to indigenous conditions, structures and institutional changes (Geringer 1991).

In a dynamic, complex or hostile environment, the importance of local partner selection to international strategic alliances is magnified because the right partner can spur the international strategic alliances adaptability, strategy environment configuration, and uncertainty reduction (Luo, 1997). Moreover, local partners can assist foreign partners in obtaining insightful information and country specific knowledge concerning governmental policies, local business practices, operational conditions and the like. It also helps companies gain access to, secure at a low cost, locally scarce production factors such as labor force, capital or land. During the process of international strategic alliance formation, firms must identify appropriate criteria for local partner selection as well as the relative importance of each criterion. They are divergent depending on firm, setting and time. Broadly, the criteria can be classified into three categories related to: (1) tasks or operations; (2) partnership or cooperation; and (3) cash flow or capital structure.
Operation related criteria are associated with the strategic attributes of partners including marketing competence, relationship building, market position, industrial experience, strategic orientation and corporate image. Cooperation related criteria often mirror organizational attributes such as organizational leadership, organizational rank, ownership type, learning ability, foreign experience and human resource skills. Cash flow related criteria are generally represented by financial attributes exemplified by profitability, liquidity, leverage, and asset management. A partner’s strategic traits influence the operational skills and resources needed for the joint venture’s competitive success; organizational traits affect the efficiency and effectiveness of inter firm cooperation; and financial traits impact the optimization of capital structure and cash flow. Conceptually, strategic, organizational, and financial attributes are all crucial to international alliance success.

A partner with superior strategic traits, but lacking strong organizational and financial characteristics, can results in an unstable strategic alliance. The possession of desirable organizational attributes without corresponding strategic and financial competence leaves the strategic alliance unprofitable. A partner with superior financial strengths without strategic and organizational competencies can lead to an unsustainable venture. From a process perspective, the linkage between partner selection and international strategic alliance success lies in inter partner fit (Hamel, 1991; Yan & Gray, 1994). While strategic attributes may affect strategic fit between partners, organizational traits are likely to influence organizational fit and financial attributes will impact financial fit. Figure 6.1 (page 331) schematically summarises these relationships.
The above three-fold classification scheme (strategic, organizational and financial) may be of interest to both theory and practice. Although this study uses Malaysia as its analytical setting, such scheme and key components may be applicable to other contexts. Such classification is imperative because each group affects a different kind of fit (strategic, organizational and financial), thus influencing different dimensions of international strategic alliance performance. Financial attributes are also important because cash flow positions, financial strategies and capital structures of partner firms impact the degree of both financial and operational synergies derived from venturing activities. The author addressed these variables using an integrative approach with an aim to include all relevant attributes that may influence international strategic alliance success in the scheme. In the selection process, international managers may use this scheme to examine the strengths and weaknesses of the potential partners and to determine whether partner attributes fit their own in strategic, organizational, and financial arenas.

**Strategic Attributes**

It is important to note that different strategic, organizational and financial traits may have a heterogeneous effect on different aspects of international strategic alliances performance. Companies need to discern not only partner selection criteria in general but also which ones are crucial to their specific strategic goals. The specific performance effects include profitability, market growth, cost minimization, stability, risk reduction, export growth and the like. The success of international strategic alliances is generally measured by the extent to which the participating firm’s strategic goals are achieved.
**Marketing Competence**

Malaysia has already become a mixed market economy. Government instituted distribution, wholesale and retail systems under the present system designed to protect indigenous products have been slowly abolished. Instead, competitive pressure from both local rivals and other foreign competitors has become increasingly strong in all deregulated industries. In this new environment, a Malaysian partner’s marketing competencies in distribution channels, promotional skills, knowledge about local business practices and relationships with major buyers and relevant governmental authorities are fundamentally important for foreign companies seeking market position in Malaysia. Perhaps Malaysian firms, entrenched in low cost, low price strategy, would want to rethink their strategy for long term survival (Zabid et al. 1999). Shenkar (1990) suggests that a foreign company’s technological strengths and a local partner’s marketing competence create operational synergies which are mutually beneficial to both parties. Luo (1995) observed an importance of such marketing competence, particularly skills in personnel direct marketing to the market performance in international strategic alliances.

**Relationship Building**

Foreign companies can gain an edge over their competitors in the Malaysian market if they have a network with the business community (e.g., suppliers, buyers, distributors and banks) and government authorities (e.g., political governments, industrial administration departments, foreign trade and economics commissions). As shown in Chapter two, rather than depending on an abstract notion of impartial injustice, Malaysian and businesses traditionally prefer to rely on their contacts with those in power to get things done. Personal connections and loyalties are often more important than
organizational affiliations or legal standards. A local partner’s network constitutes strategic assets for all international strategic alliances regardless of their strategic goals, orientations or objectives.

**Market Position**

A major objective of foreign investors in the Malaysian market is to exploit market opportunities and business potential (Beamish, 1993), so a local partner’s market power is a key asset. In Malaysia, market power is often represented by a local partner’s industrial and business background, market position and established marketing and distribution networks. Market power also enables the firm to influence some industry wide restrictions on output, increase bargaining power, and offer the advantages of economies of scale (Luo, 1995). Over the last few years, the Malaysian government has relinquished control over a growing number of industries. The rapidly expanding Malaysian economy, together with high market demand has made market positioning extremely important for the success of any business in the country. In such circumstances, a Malaysian partner’s market strength is central to the international strategic alliance financial return and indigenous market growth. Moreover, strong local market power can strengthen the international strategic alliance commitment to local market expansion (Park & Ungson, 1997). Furthermore, strong market power can lead to greater bargaining power with the local government. This can help reduce political risks and business uncertainties (Kobrin, 1982).

**Industrial Experience**

When operating in an emerging economy characterized by relatively weak market structure, poorly specified property rights and institutional uncertainty, an international
strategic alliance seeking efficiency and growth needs an adaptive orientation, a solid supply relationship, comprehensive buyer networks and a good organizational image (Luo, 1997). The local partner’s market experience and accumulated industrial knowledge are of great value to the realization of these goals. In Malaysia, a local partner’s established history and strong background in the industry often result in a good reputation or high credibility in the market. Lengthy industrial and market experience signifies that the local firm has built an extensive marketing and distribution network, a badly needed competence for international market growth. In addition, since Malaysia has a stronger relationship oriented culture compared to most industrialized market economies, the business activities of international strategic alliance in Malaysia can be greatly facilitated by local partners’ connections in the domestic business scene and good relations with influential persons. Goodwill and superior contacts constitute country specific knowledge or, what the resource based view calls the ‘resource position barrier’ (Wernerfelt, 1984) which enhances an international strategic alliances competitive advantage, economic efficiency and risk reduction capability. According to Luo (1997), a local partner’s industrial experience has a favorable influence on the international market growth and operational stability.

**Strategic Orientation**

The strategic orientation (Miles and Snow, 1978) of local firms is important to alliance success because how well it matches that of its foreign partner influences inter partner consistency in terms of strategic goals and behaviors, cooperative culture and investment commitment (Parkhe, 1991). These in turn affect the formulation and implementation of technological, operational, financial and managerial policies at various levels including
corporate, business, functional and international. As strategic orientation determines organizational adaptability and innovativeness, it may affect not only the local firm’s strategic but also organizational behaviors such as managerial philosophy and style and long term orientation, which may in turn influence mutual trust and collaboration between parties. Under this orientation, the partner candidate should be innovative and adaptive but not extremely aggressive and risk taking when the market changes. This is especially important for organizations facing a rapidly changing environment. Malaysia has seen rapid changes in economic and social environments in the last two decades, requiring firms to be adaptive and flexible (Sulaiman et al, 1999).

**Corporate Image**

A superior corporate image usually implies a superior product brand, customer loyalty or organizational reputation. Corporate image may be unusually critical in Malaysia because Malaysian consumers are particularly loyal to the products made by the companies maintaining a superior image in the market. For instance, when purchasing household, appliances, Malaysian people, similar to consumers elsewhere, tend to attach more importance to corporate image, than to the physical attributes of the products (Rokiah; 1999; Roslin et al. 2000). Therefore, it is imperative for foreign investors to collaborate with those Malaysian businesses that have maintained a good organizational reputation and product image. This selection will significantly benefit the market power and competitive position of the venture in the relevant industry. A superior company image in Malaysia also implies better relationships with the local government, as well as with suppliers and distributors. These relationships are crucial for firms pursuing a market share and competitive position in the industry. In 2004, the Malaysian government
decided to reform all government linked companies as part of the reform focus for the
next five years. It is deemed that a firm with a superior corporate image will be more
likely to be the leading or core unit in the group. Such business groups which will soon
become new market driven oligopolists in related industry will become the ideal partner
for multinational companies in the future.

Environmental strategy

The challenges posed by the alliance environmental context to alliance management were
discussed in Chapter three. These discussions confirm that environmental turbulence
directly affects alliance management (Glueck 1976; Butterly et al. 1998; Johnson et al.
1999; Porter 1980; Ohmae 1989; Hamel et al. 1994; Cauley De la Sierra 1995; Doz et al.
and Manning (1999) note that volatility in developing countries makes alliance
management more difficult. The research reveals that such a volatile environment is
characterized in Malaysia by the dominance of governmental and socio cultural factors.
The cases show that only those alliances that develop strategies to cushion the negative
effects of the alliance environment are able to survive. All cases developed strategies to
curtail the influence of political interference, a key feature of the socio cultural factor.
According to Wildeman (1998:97), business strategies that are developed to take into
account environmental influences are themselves highly influenced by environmental
factors. As Malaysia progresses toward a developed nation status, Malaysian firms might
need to focus greater attention on developing strategies consistent with their industry
environments and in designing appropriate and more sophisticated control systems that
can be aligned to strategy and environment (Sim et al. 1997). In the design control
systems, management needs to emphasize attributes of control system changeability, incorporating features of greater flexibility and informal communication modes (Sim et al. 1997).

Organizational Attributes

Organizational context/strategy

In Chapter three we saw that adequate organizational components and the ability of alliance managers to leverage resources and structures are critical to an alliance’s success. Adequate organizational components depend on the partners’ contributions; the latter depend in turn on the degree of sufficiency of resources within the alliance environment. In developing country contexts, organization components are typically poorly resourced, increasing the susceptibility to strategic drift in alliance goals and strategic intent (World Bank 1999:202; Kavanumar 2001; Kohn et al. 1996; Turner et al. 1997; Kotabe et al. 2000; Quang et al.1998). The case studies show that, those that achieved a relative degree of success developed organizational strategies that took alliance management beyond the formal agreements and focused on the actual management of interaction. The cases show that due to Malaysia’s relationship oriented culture, personal contact through governance structures enhanced the alliance management process. The cases also show that those that inculcated alliance management skills at both strategic and operational levels were able to interface effectively. Developing communication infrastructures was also vital to alliance management.
Leadership is another important aspect of organizational attributes. Leadership in Malaysian state owned enterprises is a fairly complicated issue because top level management positions are assigned by upper level government authorities. On the other hand, leadership is fundamental to alliance success in Malaysia. The relationship with leaders often outweighs the contractual terms and clauses agreed upon by both parties to an alliance. The leadership of the Malaysian partner also critically influences the cooperative culture between the two partners, which in turn affects their mutual trust. In addition, the partner’s relationships with the government are largely determined by the interpersonal relationship between its management and government officials. These personal connections can be the most important factor for an alliance competitive edge, especially if the venture has to rely upon the government in acquiring approvals or in securing various kinds of support and assistance. As a result of continuous industrial decentralization and economic reforms, which further increase the autonomy and authority of corporate level managers, the effect of a Malaysian partner’s leadership appears to be even more fundamental to the international strategic alliance today.

Ownership Type

Economic development in Malaysia has given birth to a new diversity of organizational forms. The spectrum spans the continuum from state owned to non state owned businesses. A Malaysian partner’s organizational form influences not only its motivations for forming an international strategic alliance but also its commitment and contribution to operations, which in turn affects the international strategic alliance’s performance. During structural reforms in the Malaysian economy characterized by a weak market structure, poorly specified property rights, and strong governmental interference, state
owned firms have the advantage in gaining access to scarce resources, materials, capital, information and investment infrastructure. In addition, state owned organizations due to their close ties with the government sometimes have an advantage over privately owned firms in terms of industry experience, market power and production and innovation facilities. State owned businesses are also treated preferentially by the government when selecting market segments. This organizational form may hence facilitate the market growth in new domains. For all these reasons, state owned organizations may contribute more to an international strategic alliance market expansion than non state owned organizations. This is empirically confirmed by Luo (1997) and Edwards (1993). Nevertheless, state firms lack self motivation and operational autonomy, while being highly vulnerable to bureaucratic red tape. It is reported that over sixty percent of state owned enterprises in Malaysia have shown a loss whereas private businesses cannot survive if they continuously make losses. International strategic alliances with efficiency oriented private partners are thus more likely to enjoy superior returns on investment.

**Learning Ability**

It has been noted in the international strategic alliance literature that complementary needs create inter partner fit which is expected to generate a synergistic effect on international strategic alliance performance (Buckley & Casson, 1988). However, complementarity is not likely to materialize unless certain thresholds of skills are already in place. Malaysian businesses generally seek technological, innovational and managerial skills from foreign partners. The success of an international strategic alliances operations and expansion will largely depend upon its local partner’s learning capability, or its ability to acquire, assimilate, integrate and exploit knowledge and skills (Beamish, 1987,
Hamel 1991). The firm’s ability to process, integrate and deploy an inflow of new knowledge and skills closely depends on how these relate to the skills already established (Luo, 1997). This skill based is expected to influence strategic fit and organizational fit between alliance partners, which in turn influence the alliance accomplishment in terms of both financial and operational synergies.

**Foreign Experience**

A local partner’s previous foreign experience is critical to the success of intercultural and cross border ventures. Foreign experience affects the organizational fit between partners in the early stages of the alliance and how well they remain matched as the venture evolves over time. Because the business atmosphere and commercial practices in a developing country are different from those in developed countries, mistrust and opportunism have often taken place in the international strategic alliances operations (Shenkar, 1990). A Malaysian firm’s foreign experience through import and export business or cooperative projects with other foreign investors, proves to be a very desirable attribute since this represents superior knowledge, skills and values regarding modern management methods. Contact with foreign companies can sharpen sensitivity toward competitiveness in the international market. As foreign experience is accompanied by exposure to foreign values, it also increases a Malaysian business’s ability to effectively communicate with its foreign partner. This acquired knowledge stimulates the trust, collaboration and forbearance between partners. As a consequence, a Malaysian partner having international experience will contribute more to the alliance financial return, risk reduction and sales growth in the domestic as well as export markets. This effect is empirically supported by Beamish (1987) and Shenkar (1990).
**Human Resource Skills**

In international strategic alliances, people with different cultural backgrounds, compensation systems and other human resource ‘baggage’ often have to begin working together with little advance preparation. Unless the ground has been smoothed, this ‘people factor’ can halt the alliance progress, sometimes permanently (Cascio & Serapio, 1991). These skills are reflected not only in blending of cultures and management styles with their foreign counterparts, but also in job design, recruitment and staffing, orientation and training, performance appraisal, compensation and benefits, career development and labour management relations. Among these attributes, the abilities to overcome cultural barriers, recruit qualified employees and establish incentive structures are particularly imperative. In recent years, foreign companies have encountered increasing pressure from local government agencies to hire locally qualified people and from labour departments to obey bureaucratic stipulations over human resource management. Under these circumstances, a foreign company needs a local partner which is skillful in managing the workforce and dealing with unions while externally handling labour departments and other governmental authorities. It is important to create a corporate culture that contains some aspects of Western management style and is at the same time, acceptable to the Malaysian staff.

**Cultural fit (Acculturation)**

Culture significantly affects alliance implementation and performance. The challenges faced by alliance managers in developing cultural fit between partners’ organizational cultures and with the dominant societal cultures were discussed in Chapter three. The analysis of culture at the organizational level and differentiation between Western and
developing country cultures have been mainly captured in Hofstede’s Value Survey Model undertaken in 1980 and later updated in 1984 (Hofstede 1980, 1997; Hofstede and Bond 1984). The works of Trompenaars (1993), Gannon (1984) and Hall (1976) have also exemplified the importance of culture in management. In the context of cross cultural alliances the work of Elashmawi et al. (1993), Segil (1996) and Lorange et al. (1993) highlight the challenges posed by culture. How can the process of acculturation be managed? One instrument is to staff key positions with managers who have a high intercultural competence. Such “cultural cross border commuters” (Ringlstetter, 1994) may support mutual understanding and reduce emotional and cultural conflicts.

Generally, empirical studies show that decision makers, while concluding strategic partnerships, rarely pay enough attention to cultural differences and concentrate more on strategic issues. The result may be organizational problems created by unrealistic change programs or disappointments in terms of synergies achieved (Vaara, 2000). Thus, alliance managers who purposely devised strategies to filter these challenges or blend the positive aspects of societal culture with organizational culture were less affected.

**Institutional fit**

Much market activity is arranged through the existence of institutions embedded in economics, political and cultural arrangements (Dacin, Goodstein & Scott, 2002; North, 1990). Firms do not have an unlimited array of strategic actions from which to make choices. Rather, in order to enhance their likelihood of success, they choose from a defined set of legitimate options as determined by economic opportunity, resources and institutional forces within an industry and a country or region (Ahlstrom & Bruton, 2001; Hoffman, 1999). That is firms are embedded in social frameworks of norms, values and
rules of exchange that define appropriate economic behaviour and influence strategic
to exchange barriers or create opportunities for action. Therefore, institutional arrangements, as reflected in government legislation, the nature of property rights and the presence or absence of professional and commercial norms of behaviour, determine the boundaries and paths for acceptable action. Park and Ungson (1997) argued that the values and norms embedded in the institutions could also affect the development and management of strategic alliances. Bianchi (2002) showed that a firm’s success with an international strategy was a function of its conformity to institutional norms most salient in the local country contexts. Thus, institutional arrangements influence the evolution of national economies, organizational forms and managerial actions.

**Trust**

Trust is perhaps the foundation of a strategic alliance (Parkhe 1998; Currall and Inkpen 2002). Without trust during the collaborative process, information exchanged between the partners may be low in accuracy (Currall and Judge 1995). A defining characteristic of trusting relationships is open and prompt communication among partnering firms. Likewise, frequent interactions, the timely exchange of information and accurate feedback on each partner’s actions will minimize misperceptions and strengthen cooperation in the alliance. At the extreme, when a firm can fully trust its partner, there may be no need to control the behaviour of the strategic alliance entity. The presence of trust may negate the need for certain controls (Inkpen and Currall 2004). In the collectivist Malaysian culture, trust and respect are imperative to ensure success. In addition, trust has efficiency implications; trust reduces the probability of loss and
enables partners to move forward even though uncertainty in the relationship may remain (Nooteboom et al. 1997). Selecting a partner with trust as an expectation, being willing to gradually, yet continuously reveal the firm’s strategic goals for the alliance as partners do the same and demonstrating patience when expecting partners to become trustworthy are important actions (Cullen et al., 2000). Thus, if trust increases and mutual partner understanding develops, knowledge about partner systems and ways of doing business will become more accessible.

**Financial Attributes**

*Profitability*

A local partner’s profitability will directly influence its ability to make a capital contribution, fulfill financial commitments and disperse financial resources to the alliance (Barrett, 1992). These in turn affect the alliance’s profit margin and wealth accumulation. The profitability attribute will also indirectly influence the joint venture’s capital structure, financing costs and leverage. In recent years, a sustained tight monetary policy reflected in increased interest rates and reduced bank lending and money supply (credit crunch) has resulted in liquidity problems for many Malaysian firms, particularly those heavily relying on bank loans. As a large proportion of capital contribution by Malaysian partners to alliances comes from bank loans, this new measure substantially constrains the capacity of Malaysian partners to meet their financial commitments (Ragayah, 1999). In sum, lack of profitability of local partner can be symbolic of internal weaknesses in financial, technological, operational and managerial areas.
**Liquidity**

A local partner’s liquidity is critical to alliance operations because it directly affects the venture’s ability to pay off short term financial obligations (Susskind, 2005). In the international business literature, it is commonly understood that foreign investors attain financial synergies from the optimization of operational cash flows. A foreign venture can reduce the default risk and uncertainty of operational cash flow, but this depends on the correlation of the pre-cooperation cash flow of the two firms. Ideally, in an attempt to achieve the maximum financial and operational synergies, two partners should be complementary not only in capital structure but also between their financial and competitive strengths. Because these issues significantly influence growth and survival in international market, investors should attach utmost importance to the liquidity level of local firms during the selection process.

**Asset Efficiency**

The asset efficiency of a local partner is critical to the effectiveness of the strategic alliance for maximizing return on investment. A partnership with a local firm which manages its total assets skillfully and efficiently is surely beneficial to the foreign investor either short term profitability or a long term competitive position in the market (Kaplan and Hurd, 2002). Asset efficiency has become particularly important for the evaluation of Malaysian business performance in recent years because the level of asset management mirrors the degree of advancement of managerial skills and the extent of effectiveness of corporate administration (Mat Nor, 2003). Although a large local firm helps increase the economy of scale and gain better access to capital markets or
commercial loans, the net size effect on the firm’s financial and market performance virtually relies on asset turnover.

**Coping Strategy and Conflict resolution**

The literature on alliance management processes in developing countries indicates that organization processes are generally managed as closed systems and that they are often not responsive to environmental changes as there is little perspective taking. Process management is constrained by ambiguous criteria for performance management and organizational goals (Kiggundu, 1990). Process management also has to be undertaken in an environment where positive organization culture is still very much fragmented, volatile and information void. In response to such environments, Haley et al. (1998:302) point out that the predominance of strong relationship cultures acts as a major tool for coping strategies. Typical coping strategies in Asian business networks include top managers placing emphasis on hands on experience to make fast decisions within minutes without the benefit of detailed analysis of hard data; use of qualitative information; holistic information processing as analytical models often prove unworkable; action driven decision making and emergent planning where strategies bubble up. Such strategies are often based on experience based intuitive models rather than analytical models where formal data collection and analyses is emphasized. Instead, external sources of qualitative information, which is subjective and obtained from business associates, government officials whose judgement and character they trust are preferred.
Conflict often exists in inter organizational relationships due to the inherent interdependencies between parties. Given that a certain amount of conflict is expected, an understanding of how such conflict is resolved is important (Borys and Jemison, 1989). The impact of conflict resolution on the relationship can be productive or destructive (Assael, 1969; Deutsch, 1969). Thus the manner in which partners resolve conflict has implications for partnership success. When parties engage in joint problem solving, a mutually satisfactory solution may be reached, thereby enhancing partnership success. Partners often attempt to persuade each other to adopt particular solutions to the conflict situation. These persuasive attempts will generally be more constructive than the use of coercion or domination (Deutsch, 1969).

The use of destructive conflict resolution techniques such as domination and confrontation is seen as counter productive and is very likely to strain the fabric of the partnership. In some partnerships, the method of conflict resolution is institutionalized and third party arbitration is sought. While such mediation can be helpful in producing beneficial outcomes (Anderson and Narus, 1990), “internal resolution” shows a greater promise of long term success (Assael, 1969:580). As a result, smoothing or avoiding fails to go to the root cause of the conflict and tends to undermine the partnership’s goal of mutual gain. Although this research stressed the importance of reduction of selection uncertainty and pointed out organizational mechanisms for reducing it, it is noteworthy that complete resolution of selection uncertainty is almost impossible due to bounded rationality which refers to cognitive limits of individuals to predict and identify all contingencies in decision making (March & Simon, 1958).
Strategic alliance success

The outcome of any strategic alliances cannot be considered in isolation from the processes within. The research indicates that all the Malaysian companies studied developed strategies either formally or through emergent planning to manage the alliance environment, organizational components, alliance culture and alliance processes. However, developing a model of partnership success begs the question of what partnership success means. Although success in strategic partnerships might be viewed as a function of continuation (Harrigan, 1988) relationship longevity may not accurately capture partnership success. Some partnerships are purposively dissolved after a period of time (Hamel, Doz and Prahalad, 1989). In this model, an affective measure (satisfaction of one party with the other) is used. The affective indicator (satisfaction) is based on the notion that success is determined in part by how well the partnership achieves the performance expectations set by the partners (Anderson and Narus, 1990). A partnership which generates satisfaction exists when performance expectations have been achieved.

6.4 Implications for policy and practice

Implications for policy and practice abound. The research findings could be used to formulate alliance management strategies for new strategic alliances in both developed and developing countries. At the same time alliance managers could directly use the findings derived therein for realigning strategic intent to managing relationship, control, culture and environment in order to avoid strategic drift. Findings are also specifically useful for deriving strategic and operational fit. Overall, the thesis has provided a new model of alliance practice based on the theoretical underpinnings of the strategic
alliances, organizational and financial fit approaches as well as on the practical experiences of alliance management in Malaysia. The model also offers insights into how alliance managers develop coping and conflict resolution strategies to survive the idiosyncratic environment in Malaysia and in other developing countries. A pertinent policy lesson has to be the need to elevate management education in Malaysia, where there should be a clear shift away from old management principles shrouded with various idiosyncratic and bureaucratic policies to management principles based on current and flexible specialisation. Addressing this concern could result in an increased availability of potential alliance managers in the country. The findings from this thesis offer a good start to the design of alliance management education in Malaysia in view of the liberalization of the Malaysian economy. An appreciation of the relationship oriented and high culture context of the Malaysia environment goes a long way towards educating alliance managers about the challenges and about the appropriate strategies that they should adopt.

The other managerial implication to be drawn from this research relate to the manner in which partners attempt to manage the future scope and tone of their relationship. Trust, commitment, communication quality, joint planning and joint problem resolution all serve to better align partners’ expectations, goals and objectives. These factors all contribute to partnership success. The challenge, however, lies in developing a management philosophy or corporate culture in which independent and autonomous trading parties can relinquish some sovereignty and control while also engaging in planning and organizing which takes into account the needs of the other party. Such an
abdication of control and autonomy does not come easily but appears to be a necessary managerial requirement for the future. While it would seem that similarities across organizational cultures would improve the probability of partnership success (Harrigan, 1988) such compatibility cannot be ensured. In many cases, differences in culture, operating procedures and practices become apparent only during the course of the partnership. Effort must be devoted to the formation and implementation of management strategies that promote and encourage the continued growth and maintenance of the partnership.

The other important implication derived from this research is the importance of institutional effects on strategic alliance partner selection. Importantly, it suggests that multinational firms need to adapt their approaches for establishing alliances in separate countries. In particular, they should understand that local firms in various emerging market countries are likely to have different needs and seek different types of partners for strategic alliances. All emerging economies are not equal. The partner selection process may be particularly sensitive to differences in institutional environments (Newman, 2000). Given the results of this research and previous work on partner selection (Hill et al. 2000) multinational firms entering alliances with local emerging markets firms must consider the partner’s needs as well as their own, while understanding the institutional environment if the alliance is to be successful.

The research also suggests that the Malaysian economy reform process has been quite successful. Malaysian firms emphasize long term acquisition and development of a range
of technology capabilities to improve their competitiveness. Of particular importance to
Malaysia is the establishment of a viable financial system and capital market, requiring
extensive development of a range of financial service providers. Malaysian firms must
also continue to build their resources and capabilities and remain focused on the long
term. They must be careful to develop trusting and stable relationships with foreign
multinationals so that they feel comfortable in transferring knowledge necessary for the
Malaysian firms to build internal capabilities. The incumbent stability in the Malaysian
institutional environment thus may override cultural influences in this instance.

The saliency of institutional environment stability has important implications for policy
makers who can raise or weaken their countries’ economic appeal to foreign investors.
One dimension of raising such appeal would be to create a climate within which foreign
and local firms can prosper (North, 1991). Needless to say, policy makers ought to
exercise prudent discretion in shaping their national stance towards foreign investment
climate, trading openness and intellectual property protection. Other factors such as
availability of skilled labour and market size are relatively quasi-discretionary, albeit still
within policy makers’ spheres of influence (Porter, 1990). A careful execution of such
policies could economize on the costs of ‘location tournaments’ (Wheeler and Mody,
1992) which governments often host to attract foreign investment. Foreign investors
have been attracted to Malaysia by its economic and political stability as well as packages
of investment incentives. However, there is evidence that many investors have not found
the environment to be as conducive to doing business as they had anticipated (Edwards,
1993). It is clear that the role of the host government in creating and maintaining a
favourable business environment is very much an ongoing one if societal objectives are
to be realized.

Data analysis also revealed the growing importance of selection and training for partner
interface and alliance management. Some of the firms invest quite heavily in training
including the need to appreciate the differences of managing to compete and managing to
cooperate. Selection procedures are important because some types of individuals are
considered inappropriate for such roles even though they may be intrinsically good
managers. In that context, this study found that staff rotation through different parts of the
business, including overseas postings and cultural exposure, was important. This was to
ensure that they see every aspect of the company, including using the opportunity of an
overseas post to perceive the company more from the perspective of a partner and learn
something as a result. The more the company is able to do this, the more it is able to build
a group of people who will be adept at managing the elements of the strategic alliances.
This builds on Zajac and Olsen’s (1993) notion of transaction value, and is related to
other work that has noted the advantage of thinking through some issues related to
alliances in ways other than minimizing transaction costs (Dyer, 1997; Madhok and
Tallman, 1998).

Finally, consideration should be given to succession planning in alliance management. It
should be acknowledged that personnel changes can have a significant impact on the
alliance and parent firms and incumbent alliance managers should carefully plan for
management succession in order to minimize disruption to alliance performance. This
research also presents one important implication for the current literature on alliance formation; while previous research taking the embeddedness approach has emphasized that concrete personal relations provided a conducive frame for economic exchange (Larson, 1992, p.84), this research has found that there indeed exist variations in the strength of ties out of which firms form alliances. Not all inter organizational relations and alliances were built upon a long history of interactions and strong personal rapport, some emerged out of cold calls or circumstantial ties that involved no or limited prior interaction. This finding is consistent with an emerging argument in the embedded approach claiming that researchers should treat embeddedness not only as an academic program but also as a variable to be explored (Block, 1990, DiMaggio & Louch, 1998; Granovettar, 1995; Uzzi, 1996). While Malaysia and foreign companies share many features, clear differences stem from their different socio cultural grounding.

This study identified a clear mismatch between what the Malaysian companies would have liked to do and what they were able to do in managing their relationships with foreign partners. Also, and contrary to a priori expectations, the profiles and individual characteristics of the executives involved seemed to play a greater role than the profile of the companies. Alliances among culturally different partners are another complex phenomenon that requires a multidisciplinary approach. At the same time, the research also found that cross cultural training and exposure enhances alliance management. The importance of culture in management has been emphasized in the work of Hofstede (1997), Trompenaars (1993), Hall (1976), Gannon (1984) and Peters et al. (1982). Managerially, such research offers insight into how to proactively manage partnerships in
order to reap the benefits of success, and to avoid the damaging costs inherent in their failure. These contributions are important to management scholars and executives of multinationals as well as to firms domiciled in developing countries.

6.5 Limitations

The findings from this research, as in all research, must be tempered by the limitations of the study. Clearly, the findings are contingent upon the context and the type of partnerships studied, in this case, partnership between Malaysian companies and their partners. The general applicability of these results across a broad range of strategic partnerships is possibly limited. In addition, data were collected from only one side of the partnership. The Malaysian partners’ perception remains unknown. Data were collected from only a single informant from the Malaysian companies’ organization. While use of a single informant met Campbell’s (1955) criteria, it is clear that these respondents were providing their individual perceptions of organizational level phenomena. The findings are limited to those alliances studied and it is therefore left to readers to familiarize themselves with other cases and to draw their own inferences about other strategic alliances in different contexts and industries. Furthermore, since the qualitative data was gathered from firms in a single country and only in a number of industries and organizations, the findings cannot be generalized without restriction.

Despite this, the research did not incorporate the clientele into the study so as to complete a holistic evaluation of alliances as propounded by Feng et al. (2004) and Brief et al. (2003). Budgetary and time limitations confined the author to only Malaysian firms and
it was necessary to rely on documentary evidence to gauge the views of customers. Another limitation is that the research relies solely on Hofstede’s (1980; 1991) dimensions to measure cultural differences. These dimensions have often been used (see Chandy and Williams (1994); Hickson (1996) but Hofstede’s work has also been criticized (Roberts and Boyacigiller, 1984) and Triandis 1982). For instance, using countries as a unit of analysis to address cultural differences is an obvious simplification because cultural differences do not strictly follow country borders. Future studies using other measures of cultural differences will add to the present study. Finally, due to the agreements with the interviewees, organizational and alliance information cannot be disclosed. It is, however, reasonable to suppose that firms have different alliance strategies and that, the contents of knowledge or resources to be exchanged shape the formation of alliances. Granovetter (1995) for instance, argued that both business strategies and management orientations determine ways by which firms form alliances through personal networks, then it is reasonable to suppose close connections between business strategies and activation of the relational mechanism. In addition, the reduction in selection uncertainty would be contingent upon what allying firms exchange and how they exchange it.

6.6 Implications for further research.

This research has contributed to a general effort worldwide aimed at deciphering the causes of the high failure rates of strategic alliances, which is currently sixty to seventy per cent within the first year of business (Rackham et al. 1996; Wildeman 1998; Cauley De La Sierra 1995) and forty to fifty per cent within five years (Bleeke et al. 1993). By
focusing on the role of partner selection in alliance management, the thesis has satisfied (Doz and Hamel, 1998; Geringer 1991; Gulati 1998; Hitt et al. 2000; 2004; Parkhe 2003) concerns that although it was clear a major cause of alliance failure was partner selection, little has been known about how firms form alliances and more importantly about the influence of institutional environment on the strategic actions of firms (i.e., selection of strategic alliance partners). This study suggests several future research questions. For example, how do firms identify prospective alliance partners that have the needed resources and capabilities? Future research should address how strategic alliances can be managed successfully to ensure that both partners’ needs are satisfied through the alliance (Ireland, Hitt & Vaidyanath, 2002). Do differences in the way local firms navigate the institutional environment affect their success in strategic alliances and their competitiveness in their markets? Do the preferred intangible assets vary with the institutional environment and how do they acquire them from alliance partners?

The research has also plugged a major gap in alliance partner selection research in Malaysia in that it is the first empirical study of its kind. In terms of its contribution to the discipline of strategic alliance, the research has incrementally added to the corpus of knowledge by offering a holistic conceptual model for strategic alliance management and, in particular, this conceptualization has been undertaken in the context of a developing country. In such contexts where environments are complex, resource deficient and highly information void, alliance managers commonly adopt coping strategies to prevent strategic drift and drive strategic choice, a practice not common in developed countries where conditions are relatively conducive. However, having made the above
contribution, future research along the positivistic paradigm is required to further extend the frontiers of knowledge in strategic alliances and to generalize statistically the findings. Such research should not only focus on several industries in Malaysia but also draw from a cross section of industries.

The findings from this exploratory research offer avenues for follow up studies enhancing our knowledge of Malaysian and foreign partnerships. Strategic alliances during Malaysia’s transition toward becoming a fully developed and industrialized nation by the year 2020 present their own peculiarities that make them a new phenomenon within management research. Taking cognizance of the complexity and dynamism of strategic alliances process associated with Malaysia’s rapid industrialization, the author believes that future research should be guided towards dissecting the extent of technology imports into the country; the relative significance of local firms in the utilization of imported technology; the development of inter-firm technology flows from foreign firms in Malaysia to local firms; the impact of institutions governing technology appropriation on the extent and form of transfer activities; and the extent of success achieved by local firms in acquiring best practiced technology.

International alliances and cooperative arrangements form the economic framework of technology transfer (Contractor and Sadafi, 1981; Marton, 1986; Robinson, 1988). Economic liberalization in Malaysia exacerbates this concern with technological advancement. The need to develop existing capabilities and to accumulate new
knowledge is becoming critical for Asian companies in an increasingly global market (Pananond and Zeithami, 1998; Tsang, 1999).

While firms are the critical agent for the creation and implementation of innovations, the long term sustainability of innovative efforts depends very much on the institutional network in which they are embedded. The institutions that shape innovation include not only specialized technology policies and organizations, however, but also the broader rules and structures that affect firms’ investment incentives (Jomo and Rasiah, 1999). Industrial competitiveness in Malaysia has been achieved through domestic capability building rather than mere exposure to external competition. Government intervention has particularly been significant in averting potential market failures where information asymmetry, scale economies, learning effects and public goods characteristics had been involved. One good example is Singapore. Singapore’s successful industrialization involved a high degree of strategic intervention through a range of policy instruments, combined with specific changes in strategies and networks (Jomo and Rasiah, 1999; Sim and Pandian, 2003).

In general, however, effective state-business coordination helped minimize both government and market failures. It should be noted that, whereas technical progress is central to economic growth, its contribution to Malaysia’s rapid industrialization success is complex and difficult to measure with certainty. The debate about the contribution of productivity growth to East Asian economic success underscores this point (Krugman 1994). It is thus vital to study the prospects for and extent of absorption of technology by
firms operating in Malaysia. Also, since we lack a clear understanding of the phenomenon, it makes more sense to map key concepts and relationships than to undertake detailed quantitative analysis (Hamel, 1991; Parkhe 1993; Prahalad, 2004; Ghoshal, 2005).
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APPENDIX 4

Government shareholdings in top 19 listed companies, 2003

<table>
<thead>
<tr>
<th>Name</th>
<th>Industry</th>
<th>Market Capitalization (RM million)</th>
<th>Government shareholding (per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malayan Banking</td>
<td>Banking</td>
<td>30 783</td>
<td>70</td>
</tr>
<tr>
<td>Tenaga Nasional</td>
<td>Generation, transportation and distribution of electricity</td>
<td>27 695</td>
<td>89</td>
</tr>
<tr>
<td>Telekom Malaysia</td>
<td>Telecommunications</td>
<td>24 582</td>
<td>88</td>
</tr>
<tr>
<td>Malaysia International Shipping Corporation</td>
<td>Shipping</td>
<td>14 228</td>
<td>85</td>
</tr>
<tr>
<td>Maxis Communications</td>
<td>Telecommunications</td>
<td>14 093</td>
<td>5</td>
</tr>
<tr>
<td>Petronas Gas</td>
<td>Natural Gas</td>
<td>13 851</td>
<td>95</td>
</tr>
<tr>
<td>Plus Expressways</td>
<td>Operation of tolled Expressways</td>
<td>12 150</td>
<td>88</td>
</tr>
<tr>
<td>Sime Darby</td>
<td>Plantations, tyre manufacturing, heavy equipment and motor vehicle distribution, property, energy, general trading and services</td>
<td>11 864</td>
<td>58</td>
</tr>
<tr>
<td>Public Bank</td>
<td>Financial Banking</td>
<td>11 537</td>
<td>8</td>
</tr>
<tr>
<td>British America Tobacco Malaysia</td>
<td>Manufacture, import and sale of cigarettes and other tobacco products</td>
<td>11 208</td>
<td>23</td>
</tr>
<tr>
<td>Resorts World</td>
<td>Tourist resort operations at Genting Highlands, covering Leisure and hospitality</td>
<td>9608</td>
<td>n.a</td>
</tr>
<tr>
<td>Genting</td>
<td>Leisure and hospitality, gaming and entertainment, plantations, property development/management tours and travel, investments, manufacturing and trading in paper oil and gas</td>
<td>9438</td>
<td>n.a</td>
</tr>
<tr>
<td>Commerce Asset Holdings</td>
<td>Financial Banking</td>
<td>8535</td>
<td>67</td>
</tr>
<tr>
<td>Company</td>
<td>Industry and Activities</td>
<td>Market Capitalization (MYR)</td>
<td>Source</td>
</tr>
<tr>
<td>------------------------</td>
<td>-----------------------------------------------------------------------------------------</td>
<td>----------------------------</td>
<td>---------------------------------------------</td>
</tr>
<tr>
<td>YTL Power International</td>
<td>Power generation, sales of water, water treatment, disposal of waste water</td>
<td>6752</td>
<td>Economic Analytical Unit, 2005</td>
</tr>
<tr>
<td>Hong Leong Bank</td>
<td>Financial banking</td>
<td>6485</td>
<td></td>
</tr>
<tr>
<td>IOI Corporation</td>
<td>Cultivation/processing of Oil palm and rubber, property Development</td>
<td>5495</td>
<td></td>
</tr>
<tr>
<td>YTL Corporation</td>
<td>Power generation, construction Manufacturing and trading of Industrial products, property Development, hotel operation Sales of water, water treatment, Disposal of waste water</td>
<td>5309</td>
<td></td>
</tr>
<tr>
<td>Nestle Malaysia</td>
<td>Manufacture, marketing and Sale of food products</td>
<td>4807</td>
<td></td>
</tr>
<tr>
<td>Malaysian Airline System</td>
<td>National Airline</td>
<td>4587</td>
<td></td>
</tr>
<tr>
<td><strong>Total Bursa Malaysia</strong></td>
<td><strong>Market capitalization</strong></td>
<td><strong>491,198</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: Economic Analytical Unit, 2005
APPENDIX 5

**Selected Malaysian business regulations and conditions**

<table>
<thead>
<tr>
<th>Tax Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate income tax</td>
<td>28 per cent. Businesses operating in the petroleum industry pay 38 per cent</td>
</tr>
<tr>
<td>Capital gains tax</td>
<td>None on the portfolio investment. 5 to 30 per cent on property</td>
</tr>
<tr>
<td>Withholding tax</td>
<td>10 per cent on special classes of income; 15 per cent on interest; 10 per cent on royalties; 10 per cent for a contract payment on an account of contractor; 3 per cent for a contract payment on an account of employee</td>
</tr>
<tr>
<td>Personal income tax</td>
<td>1 to 28 per cent for resident individuals on taxable income of RM 30,000 and above per annum; 28 per cent for non resident individuals</td>
</tr>
<tr>
<td>General sales tax</td>
<td>5 per cent on fruits, certain foods, building materials and selected services; 20 per cent on alcohol; 25 per cent on cigarettes; 10 per cent on all other types of goods. A goods and services tax will be introduced on 1 January 2007.</td>
</tr>
<tr>
<td>Import duties</td>
<td>Tariff exemptions are available on raw materials, components, machinery and equipment not produced locally. For exemption on spares and consumables, businesses must also export 80 per cent of production and the tariff must exceed 5 per cent. Duty drawback is available for exported goods.</td>
</tr>
<tr>
<td>Excise duties</td>
<td>10 to 100 per cent levied on selected manufactured goods. Piece rates on alcohol and cigarettes.</td>
</tr>
<tr>
<td>Social security/payroll tax</td>
<td>No unemployment benefits. Employee Provident Fund, currently 20 per cent of employee salaries, provides retirement benefits. 11 per cent paid by the employer, 9 per cent paid by the employee. Compulsory.</td>
</tr>
<tr>
<td>Foreign exchange controls</td>
<td>Limits on ringgit payments and currency held by travelers; payments for imports must be made in foreign currency; investment abroad typically limited to 10 per cent of funds invested by resident clients; ringgit lending to non residents limited to RM 10 million.</td>
</tr>
<tr>
<td>Labour supply</td>
<td>Foreign workers are an important source of cheap, low skilled labour.</td>
</tr>
<tr>
<td>Staff overtime/bonuses</td>
<td>8 hour day, 48 hour week; Overtime pay is one and a half times the hourly rate of pay on normal working days; twice the hourly rate of pay on rest days and three times the hourly rate of pay on public holidays.</td>
</tr>
<tr>
<td>Staff leave</td>
<td>60 days maternity leave, up to 16 days annual leave per year and up to 22 days sick leave per year, depending on length of service. Up to 60 days paid sick leave where hospitalization is necessary.</td>
</tr>
<tr>
<td>Staff dismissal</td>
<td>Malaysian workers typically cushioned from dismissal because foreign workers are easier to dismiss.</td>
</tr>
<tr>
<td>-----------------</td>
<td>--------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Employee health cover</td>
<td>Available for workers earning wages not exceeding RM 2000 per month. Employers contribute 1.25 per cent of employees’ wages to the Employment Injury Insurance Scheme. Employers and employees each contribute 0.5 per cent of employees’ wages to the Invalidity Pension Scheme. Maximum contribution is based on wages of RM 2000.</td>
</tr>
<tr>
<td>Labour issues</td>
<td>Shortage of scientists and teachers.</td>
</tr>
<tr>
<td>Skills development</td>
<td>A key priority of the Malaysian Government; Manufacturers contribute to the Human Resources Development Fund which qualifies them for a training grant. Levies vary according to firm size.</td>
</tr>
<tr>
<td>Accounting principles</td>
<td>International accounting standards</td>
</tr>
<tr>
<td>Foreign land ownership</td>
<td>Ownership of agricultural land allowed under certain conditions</td>
</tr>
<tr>
<td>Banking services</td>
<td>Well-developed banking sector with some commentators suggesting Malaysia is “over-banked”. Strong Islamic banking sector</td>
</tr>
<tr>
<td>Stock/financial markets</td>
<td>20th largest stock exchange in the world</td>
</tr>
</tbody>
</table>

Sources: Economist Intelligence Unit 2004; Malaysian Industrial Development Authority, 2004
The Multimedia Super Corridor

The Multimedia Super Corridor (MSC), designed to be a global ICT and multimedia hub, encompasses the area from Kuala Lumpur City Centre through Cyberjaya, Putrajaya and out to Kuala Lumpur International Airport.

To receive the benefits of working in the Multimedia Super Corridor, businesses must first qualify for MSC status. To qualify, applicants must be a provider or heavy user of multimedia products and services; employ a substantial number of knowledge workers; provide technology transfer and/or contribute towards the development of the MSC or support Malaysia’s knowledge economy initiatives; establish a separate legal entity for the MSC-qualifying multimedia business and activities; locate in a MSC-designated cyberecity (Cyberjaya, Technology Park Malaysia, UPM-MTDC, KLCC and Menara KL); and comply with environmental guidelines. Manufacturing, trading and consultancy services are not eligible for MSC status.

Active MSC status companies include Sun Microsystems, Intel, Oracle, Siemens, HSBC, NTT and Fujitsu. Australian businesses operating in the MSC include Flaming Pear, Technology One Corporation, MYOB Asia, Learned Solutions, World Net Services, Lembaran Pegun, Cissa Communications, Optimiser Digital Management and Runge Malaysia. Australian Firms also are involved with 21 other businesses in the MSC, covering everything from game development to risk analysis software.

THE MALAYSIAN INDUSTRIAL DEVELOPMENT AUTHORITY (MIDA)

The Malaysian Industrial Development Authority, more commonly known as MIDA, is the government’s principal agency for the promotion and coordination of industrial development. It is the first point of contact for investors who intend to set up projects in manufacturing or related manufacturing support services sectors in Malaysia. Although MIDA is not authorized to approve investment outside manufacturing, senior government representatives from Finance, Human Resources, Immigration, Customs, Environment, Occupational Safety and Health, Tenaga Nasional and Telekom Malaysia are stationed at MIDA’s headquarters in Kuala Lumpur to advise investors on government policies and procedures.

The major functions of MIDA are to promote foreign and local investment in manufacturing and related services, undertake planning for industrial development in Malaysia and recommend to the Minister of International Trade and Industry policies and strategies on industrial promotion and development. MIDA also evaluates applications for establishing a business, tax incentives and expatriate posts for operational headquarters, regional distribution centres, international procurement centres, representatives offices and regional offices, incentives for promoted manufacturing activities, tourism, R&D, training institutions and software development, manufacturing licenses, expatriate posts required by manufacturing projects and tariffs protection/duty exemptions for raw materials, components and machinery.

To help business, MIDA facilitates new and existing companies in the implementation and operation of their projects, offers assistance through direct consultation and cooperation with the relevant authorities at both the Federal and State levels and facilitates the exchange of information and coordination among institutions engaged in or connected with, industrial development.

The Malaysian Industrial Development Authority is headquartered in Kuala Lumpur and has offices in Johor Bahru, Kuala Terengganu, Alor Star, Kuantan, Kota Bharu, Ipoh, Bandar Melaka, Kota Kinabalu, Pulau Pinang and Kuching. They also have international offices in Sydney, Boston, Chicago, Los Angeles, New York, San Jose, Cologne, London, Milan, Paris, Stockholm, Osaka, Seoul, Shanghai, Taipei and Tokyo.

Source: Malaysia Industrial Development Authority, www.mida.gov.my
### APPENDIX 8

## SELECTED FACTOR COSTS, MALAYSIA

<table>
<thead>
<tr>
<th>Category</th>
<th>Cost Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Electricity</strong></td>
<td></td>
</tr>
<tr>
<td>Commercial tariffs, per kWh</td>
<td>RM0.10 – RM0.40</td>
</tr>
<tr>
<td>Industrial tariffs, per kWh</td>
<td>RM0.10 – RM0.40</td>
</tr>
<tr>
<td>Minimum charge per month</td>
<td>RM10.00 – RM1000.00</td>
</tr>
<tr>
<td><strong>Water</strong></td>
<td></td>
</tr>
<tr>
<td>Per cubic metre</td>
<td>RM0.52 – RM2.96</td>
</tr>
<tr>
<td>Minimum charge</td>
<td>RM0.00 – RM30.00</td>
</tr>
<tr>
<td><strong>Sewerage, per month</strong></td>
<td></td>
</tr>
<tr>
<td>Domestic</td>
<td>RM2.00 – RM8.00</td>
</tr>
<tr>
<td>Industrial, per head</td>
<td>RM2.00 – RM2.50</td>
</tr>
<tr>
<td>Commercial</td>
<td>RM8.00 – RM9975.00</td>
</tr>
<tr>
<td><strong>Telecommunications</strong></td>
<td></td>
</tr>
<tr>
<td>Rental charges, per month</td>
<td>RM13.00 – RM45.00</td>
</tr>
<tr>
<td>Domestic call charges per minute</td>
<td>RM0.04 – RM0.90</td>
</tr>
<tr>
<td>International call charges per minute</td>
<td>RM0.90 – RM2.40</td>
</tr>
<tr>
<td><strong>Internet service fees</strong></td>
<td></td>
</tr>
<tr>
<td>Dial-up call charge per minute</td>
<td>RM0.03</td>
</tr>
<tr>
<td>Broadband per month</td>
<td>RM44.00 – RM1188.00</td>
</tr>
<tr>
<td>Digital leased line – normal, annual charge</td>
<td>RM10800 – RM636 000</td>
</tr>
<tr>
<td>Digital leased line – Multimedia</td>
<td>RM9600 – RM548 400</td>
</tr>
<tr>
<td><strong>Rent, per month</strong></td>
<td></td>
</tr>
<tr>
<td>Prime office space, per m square</td>
<td>RM12.95 – RM67.20</td>
</tr>
<tr>
<td>Factory space, per foot square</td>
<td>RM0.35 – RM2.00</td>
</tr>
<tr>
<td>Industrial land, selling price foot square</td>
<td>RM0.46 – RM22.00</td>
</tr>
<tr>
<td><strong>Freight</strong></td>
<td></td>
</tr>
<tr>
<td>Road, 20 foot container, per metric ton</td>
<td>RM0.06 – RM0.20</td>
</tr>
<tr>
<td>Per km laden</td>
<td>RM0.06 – RM0.20</td>
</tr>
<tr>
<td>Air, per kg</td>
<td>RM4.45 – RM23.87</td>
</tr>
<tr>
<td>Sea, per 20 foot container</td>
<td>RM380 – RM24 966</td>
</tr>
<tr>
<td><strong>Allowances on qualifying capital expenditure</strong></td>
<td>Initial allowances (allowances given only once) range from 10 per cent for industrial buildings to 40 per cent for environmental control equipment. Annual allowances (allowances given every year) range from 3 per cent for industrial buildings to 40 per cent for computer and information technology equipment.</td>
</tr>
</tbody>
</table>

Source: Malaysian Industrial Development Authority, 2004


APPENDIX 9


<table>
<thead>
<tr>
<th>ECONOMIC STRUCTURE AND RISKS</th>
<th>1985</th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economy small (nominal GDP of US$31.2 billion) and vulnerable to external shocks</td>
<td>Economy much larger (nominal GDP of US$71.1 billion) and fundamentally stronger</td>
<td></td>
</tr>
<tr>
<td>Economy open with exports at 49.1% of GDP, but concentrated in commodities (66.7% of total exports)</td>
<td>Economy more open, with exports at 102.9% of GDP, but risks shifted to manufacturing (82.9% of gross exports) especially electronics (39.8% of gross exports)</td>
<td></td>
</tr>
<tr>
<td>Inflation low at 0.4%</td>
<td>Inflation much higher at 5.3%</td>
<td></td>
</tr>
<tr>
<td>Unemployment of 6.9%, no pressure on inflation</td>
<td>Full employment, with foreign labour at about 10% of total employment, exerting inflationary pressures</td>
<td></td>
</tr>
<tr>
<td>Weak fiscal position-large fiscal deficit (peak of 16.9% of GDP in 1982, public sector deficit was 18% in 1982). Revenue base was dependent on export taxes, and expenditure was focused on heavy industries. Deficit was reduced to 0.6% of GDP in 1985.</td>
<td>Strong fiscal position-fifth year of fiscal surplus in 1997 (2.4% of GDP). Revenue was broad based, and expenditure had been directed mainly to education, health and infrastructure. Still in surplus in 1997 (2.4% of GDP) but moved to deficit of 1.8% of GDP in 1998 to stimulate recovery.</td>
<td></td>
</tr>
<tr>
<td>Public sector engine of growth, accounted for 46.9% of investment (nominal) and 22.7% of consumption (nominal)</td>
<td>Public sector important in recovery process. Share of public investment amounted to 44.1% (nominal) and consumption to 20.9% (nominal).</td>
<td></td>
</tr>
<tr>
<td>External sector weak with current account deficit high at 2.1% of GDP, attributable to high consumption and high government expenditure.</td>
<td>Current account surplus at 12.9% of GDP due mainly to export growth and declining imports</td>
<td></td>
</tr>
<tr>
<td>High external debt in 1986 (75.6% of GNP), mainly by public sector (64.9% of GNP) and high debt service ration (DSR) of 18.9%</td>
<td>Low external debt of 60.9% of GNP and DSR of 6.7% due to improved debt management and prepayments. Public sector debt low at 26% GNP.</td>
<td></td>
</tr>
<tr>
<td>Exchange rate stable, fluctuating between US$1=RM2.41-2.60. No change in exchange rate policy, but the rate depreciated following realignment of yen/US$ rate under Plaza Accord.</td>
<td>Extreme volatility of exchange rates breaching intra day trading levels of RM3.35 to 4.88 between January and August. Fixed exchange rate regime adopted on September 2.</td>
<td></td>
</tr>
<tr>
<td>Basic thrust of monetary policy generally expansionary to revive economic growth in the face of serious budgetary restraints and declining commodity prices.</td>
<td>Tight monetary policy stance in late 1997 to address emerging inflation in early 1998, and to restore stability in the foreign exchange markets. Monetary policy gradually relaxed as inflation eased, to support economic recovery.</td>
<td></td>
</tr>
<tr>
<td>Loans to private sector equivalent to 85.2% of GDP. Growth was fuelled through expansionary fiscal policy.</td>
<td>Domestic loans to private sector much higher at 148.4% of GDP.</td>
<td></td>
</tr>
<tr>
<td>Authorised deposit taking cooperatives that were relatively less regulated, and illegal deposit takers proliferated. Regulated banking sector in early stage of observing new prudential regulations. Several banking institutions experienced large losses, arising from imprudent lending, poor management and fraud in certain cases.</td>
<td>Comprehensive regulatory and supervisory framework for licensed banking institutions, with provisions to extend purview of BNM to other financial institutions when required to preserve financial stability. Stronger banking system and prudential standards largely in line with international standards.</td>
<td></td>
</tr>
<tr>
<td>Capital adequacy ratio of 7.5% at the end of 1985, NPL of 30.1% at the end of 1988 based on the 12 month classification.</td>
<td>At end 1998, RWCR of 11.8%; NPLs of 7.6% (net) and 12.6% (gross) under the six month classification.</td>
<td></td>
</tr>
</tbody>
</table>

By the end of 1989, four commercial banks and eight finance companies rehabilitated through capital injection or assumption of control by BNM and placed under receivership prior to absorption by a larger banking institution.