

# REPOSITIONING STRATEGY FOR MALAYSIAN COMPANIES INTERNATIONALIZATION

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*The rise of the emerging-market countries offers both developing and developed countries a unique opportunity to gain the benefits of a truly international economy. Consequently, it is imperative to advance our knowledge of emerging-market countries MNC emergence and competitiveness including Malaysian firms on how will they position their products strategically. Based on the framework of Porter's Generic Strategy, this paper is composed of price/ volume segments and impacts on product strategy theory. The aim is to identify crucial triggering cues and focus areas for Malaysian companies and measure what role these play in different segments. This study argues that some Malaysian companies will reposition themselves strategically when internationalizing and that they will focus on other factors or triggering cues when doing so not merely adapting the prevalent price leadership strategy.*

**Abstract**



*Keywords: internationalization, product strategy theory, triggering cues, reposition, price/ volume segments*

**G**lobalization and the need for Malaysia to advance its global competitiveness have made it imperative for Malaysia to modify its previous paradigm of economic development (Xavier and Ahmad, 2012). This brings implication to Malaysian firms, especially small and medium-sized companies (SMEs) to reposition their products strategically as small and medium-sized enterprises (SMEs) in Malaysia work under significantly different conditions compared to larger companies with global ambitions that, with few exceptions, have strong support from local authorities and government. The private sector was encouraged to be the engine of growth

for the economy, with a consolidation of public sector finances and a phased reduction in the role of government in business and economic activities. The operations of state-owned enterprises were rationalized and a privatization policy was introduced in order to increase efficiency.

Since its independence in 1957, Malaysia has progressed socio-economically. The country has first-class network of infrastructure that is comparable to those in developed countries. It has a strategic location in the fastest-growing region of the world with a strong natural resource endowment (Sik, 1997; NEAC, 2010; Mansor, 2010).

However, the country is mired in the middle-income trap. The competitive advantages of lower costs and labour-intensive production have since been eroded by other emerging economies such as Vietnam and Indonesia. Malaysia is unable to compete with high value-added economies (Xavier and Ahmad, 2012).

As the number of these emerging market multinationals (EMMs) has risen, a major topic of discussion in the international business (IB) literature has been whether these investments represent a new phenomenon that requires new theories, or whether they can be explained within the existing theoretical frameworks that have been used to explain their affluent country cousins, the established MNEs. To that end, (Yeung, 1994; Hennart, 2012) suggested researchers attempt to construct new conceptual paradigms. The question, however, remains how Malaysian companies will position themselves when moving abroad. Will they all adopt the Overall Cost Leadership Product Strategy co-aligning with their local competitive advantage?

The recent literatures in the field of internationalization in Malaysia typically analyses the movements/efforts of important companies to understand and explain ex post strategies (Kim Man, 2010; Zain and Imm Ng, 2006) followed or to evaluate the causes for some success or failures (Chelliah et.al., 2010; Henderson and Phillips, 2007). Conversely, the attempts to discover and describe a model for internationalization is limited (Sim, 2006). In this article, a model is presented that integrates much of the research in the field of internationalization.

## LITERATURE REVIEW

### *Internationalization Stage*

The literature defines internationalization as a process through which a firm increases its level of involvement in foreign markets over time (Welch and

Luostarinen 1988), and traditionally considered it as a series of events that take place over time (Johanson and Vahlne, 1990; Leonidou and Katsikeas 1996). Some of the first studies on the internationalization of firms came from the University of Uppsala in Sweden. The Uppsala model has two underlying assumptions. First, firms became interested in overseas markets to continue growth because the home market had become unprofitable. They usually entered new markets through exports and only years later set up manufacturing operations in the target country (Johanson and Vahlne, 1990). Once the company had gained international experience, it would set its eyes on international markets that are psychologically distant. The last stage is the international company with holistic strategies and overseas partnerships transcending cultural differences. This type of company follows international trends and conditions, exploiting them to its advantage (Rodriguez, 2007). But several authors (Benito and Welch, 1997; Crick and Jones, 2000; Casillas and Acedo; 2013) have criticized this hypothesis, arguing that firms do not all necessarily advance by gradually increasing the degree of their internationalization. Similarly, critics argue the sequential approach should be considered as being flexible, with no set trajectory along which companies should move during their internationalization period (Johanson and Vahlne

2009; Casillas and Acedo; 2013). This suggests the conceptual point of view that the existence of different patterns of international development must be acknowledged.

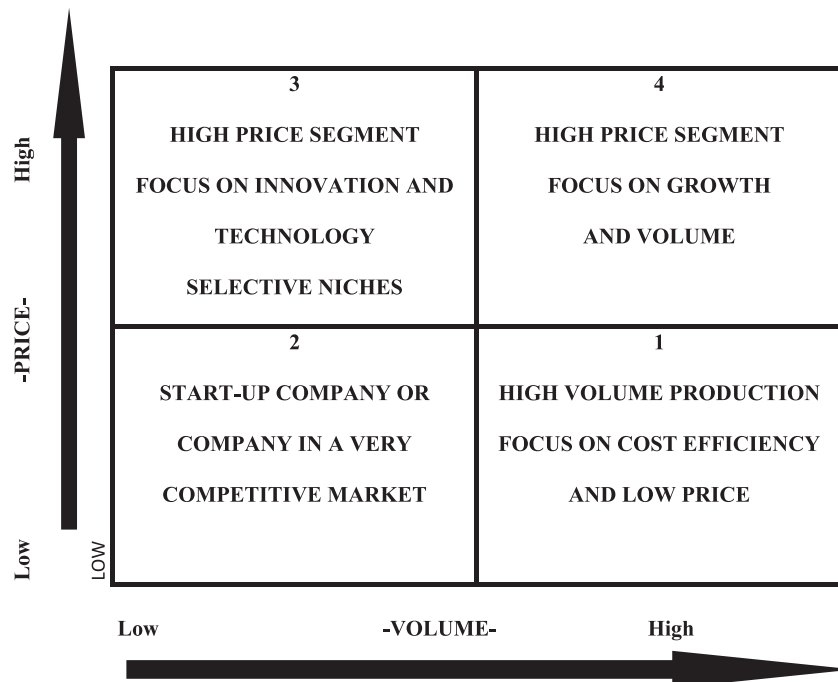
**Proposition 1:** Malaysian exporting companies have a different initial position compared to that of Western companies when starting their export activities as form of internationalization.

### ***Price and Product Matrix***

Since the publication of Porter's Competitive Strategy (1985), the generic strategies of *Differentiation*, *Cost Leadership* and *Focus* have been stands out, particularly when comparing between different proposals. However, as price appears easy to measure, quality, appears to be more difficult, Brouthers et al. (2005) incorporated Day's (1990) three generic product strategies posited that at least three viable generic product strategies exist: *economy*, *value*, and *premium*. Economy strategies reflect lower price/quality tradeoffs relative to a typical competitor, while premium product strategies reflect relatively higher quality for relatively higher prices. Businesses offer superior value when their relative price is lower and relative quality is higher than their typical competitor. It is important to note that lower quality does not imply low quality; it merely means lower quality than the premium/value segments. Economy product strategies are not low price/low quality; they are lower price/lower quality. Their price and quality is in comparison to the premium product segment. Grunewald et al. (1993) and Hjorth-Andersen (1988) hypothesized and found that competition among high quality prod-

ucts eventually tends to reduce prices over the long term; low quality products eventually disappear resulting in global markets that tend to cluster around average and high quality products. Thus, an average quality/lower priced product would be classified as an economy product (Brouthers et al., 2005). However, the generic product strategies identified by Day (1990) and Brouthers et al. (2005) are theory driven rather than empirically driven. Soderman et al.(2008), combining the work of Porter (1986) and Brouthers et al. (2005) provides theoretical framework to incorporate the matters.

People in Western countries today often associate Asian products with fairly low technical content and sometimes poor-quality and a low-price 'Economy Product Strategy' (Brouthers et al., 2000). This implies explicitly the only products successfully exported from Malaysia are those that are positioned in the low-price segment of their specific markets, while those not doing so are positioned unsuccessful in international markets and in reality most internationalizing Malaysian companies have approached the 'Cost Leadership Strategy' (Sim, 2006) when positioning themselves in a foreign market like the case of Air Asia and Proton (Ahmad, 2010; Ahmad and Neal, 2006 ; Ahmed and Humphreys, 2008) supporting notions that many firms believe that a low-price strategy is their main competitive advantage (Young et al., 1996; Ahmed and Humphreys, 2008). The pricing objective of most Asian companies seems to be, at least from an outside perspective, maximizing market share, thus assuming that higher sales volumes lead to lower unit costs



Source: Soderman et al., 2008

Figure 1. Price/volume matrix

and higher long-run profits (Kotler and Ang, 2010).

Referring to cases of Air Asia - Malaysian Airlines awarded the best world low cost airliner for three consecutive years- and Proton – Malaysian national car enjoying protection from government starting to export the product to Australia, Malaysian companies can be hypothesized to internationalize and reposition themselves from the low- to high-price segment as they either discover that their home market is not big enough in the high-price segment or as they realize that tough local competition will present a barrier to the large volumes and profits needed to survive in position 1 (Figure 1, position 1). Companies repositioning have come to the conclusion that they can reach equal or larger total profits in the high-price/low-volume segment than in the low-price segments with larger volumes.

### ***Internationalization Motives***

“What determines the international success and failure of firms?” has always served as a fundamental research question, which has permeated IB research in the past and present and is likely to propel its progress in the future (Peng, 2004; Zettinig and Vincze, 2011). However, the internalization model of foreign expansion especially its *eclectic paradigm* version, has been the dominant conceptual model in IB research during the past two decades. It suggests that firms will establish foreign affiliates in the case of strong ownership advantages, location advantages, and internalization advantages (Dunning, 1981). The model assumes that MNEs systematically engage in a cost-benefit analysis of all possible entry modes namely exports, licensing, and FDI. In contrast, the internationalization model of the Scandinavian school argues that firms will incrementally build foreign

operations, starting with low resource commitments in culturally proximate countries, and then expanding these commitments and geographic scope. Rugman and Verbeke (2004), Zettinig and Vincze, (2011) opined that little integration has occurred between the two schools, which have largely flourished on their own without much cross fertilization, and each has a loyal following of researchers.

To paraphrase Ghoshal (1987), this paper are not proposing 'a blueprint for formulating (global) strategies,' but 'a roadmap for reviewing them,' the approach taken in this article then does not stand in one side of these two schools' theoretical lenses, but incorporates them into a multifaceted view of global strategy as a concept that is in the making and permeates all aspects of a firm's functioning.

Observing various literatures, a selected number of key driving forces derived from mainstream internationalization theory and its extension are derived:

1. Gain international experience (Johanson and Vahlne, 1977)
2. Explore own advantages on markets abroad (Johanson and Vahlne, 1977; Dunning, 1980)
3. Increase profit (Johanson and Vahlne, 1977; Brouthers and Xu, 2002; Kotler and Ang, 2010)
4. Increase sales volume (Brouthers et al., 2000; Kotler and Ang, 2010)
5. Gain access to internationally experienced management or skilled human resources (Child and Rodrigues, 2005; Manolova and Brush, 2002)
6. Achieve international reputation and brand recognition (Brouthers

and Xu, 2002; Child and Rodrigues, 2005)

7. Receive government support or finance (Child and Rodrigues, 2005; Dolles, 2006)
8. Improve own-product development and innovation ratio (Vernon, 1966; Brouthers et al., 2000; Child and Rodrigues, 2005)
9. Increase technology content of own products (Wells, 1981; Child and Rodrigues, 2005)
10. Improve customer service (Child and Rodrigues, 2005)
11. Improve quality of products (Brouthers et al., 2000; Brouthers and Xu, 2002; Child and Rodrigues, 2005)
12. Improve cost efficiency in production (Wells, 1981; Brouthers and Xu, 2002; Child and Rodrigues, 2005)
13. Search efficient alliance (Zain and Imm Ng, 2006).
14. Maintain domestic positioning (Pederzoli, 2006).
15. Be opportunist (Dawson, 2001)
16. Property rights and intangible asset advantages (Dunning and Lundan, 2008).

**Proposition 2:** Internationalization motives are triggered by 16 cues.

The challenge facing most entrepreneurial companies in Malaysia is to establish and develop a viable, competitive and sustainable business, usually with limited resources and by adopting flexible, imaginative and innovative business practices. Since managers are responsive to their home markets, the nature of a particular firm's advantage is influenced by the characteristics of the national market. Owners/founders of SMEs are much more inclined

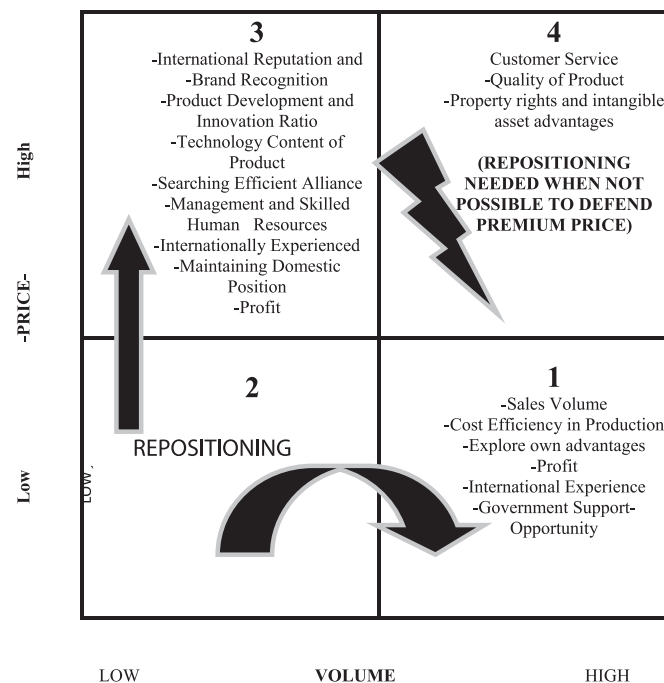


Figure 2. Distribution of 16 triggering cues in the price/volume matrix

to internationalize, or start exporting, if they have prior international experience, skills or overall competence in doing business abroad (Manolova and Brush, 2002).

**Proposition 3:** The 16 triggering cues are distributable between four strategic positions based on expected importance to define competitive advantage in each position.

Figure 2 shows the expected distribution of the key driving forces. In line with Soderman et al., (2008), it is assumed that no companies, in the long run, would be willing to stay in position 2. This is an area for a new company on the market aiming for position 1 or for a company initially in position 1, but being pushed into position 2 by tough competition and subsequently trying to reposition to square 3. Position 1 corresponds to the Economy Product Strategy (Brouthers et al., 2000). A company trying to differenti-

ate by offering higher value for money in position 1 (e.g., through higher quality, as offered by Japanese companies) would adopt the Superior Value Product Strategy in position 1. Positions 3 and 4 correspond to the Brouthers et al.'s Premium Product Strategy.

**Repositioning Strategy Choice**

Some companies will reposition to the high-price/low-volume segment with the view of potentially increasing their total profit in these high-price segments. In doing so, they leave the strategic advantage of their home-country conditions (Brouthers et al., 2000). Malaysian companies can also benefit from their lower costs in the high-price/high-value segments. They have a cost advantage compared to Western companies in terms of lower hourly rates in RandD and product development, lower capital costs and an overall lower cost structure. However, in the long term, many Malaysian companies will need to reposition from segment 1

to segment 3, as price leadership does not provide a basis for sustainable competitive advantage (Porter, 1985; Brouthers and Xu, 2002; Soderman et al., 2008, Kim Man, 2010). This is apparent since Malaysian labour cost advantage is gradually gone as other Asian countries become significantly more cost-competitive and also fierce domestic competition in Malaysia continues to slash profits. Consequently, companies are redesigning their strategies to focus on narrowly defined core industries with a global scope. Thus, they simultaneously accelerate their internationalization while reducing their product diversification.

**Proposition 4:** Because of their country-specific advantages, most Malaysian companies will stay in position 1 but in the future will reposition by leaving the position and aiming for position 3.

## METHODOLOGY

Collecting primary data from interviews has been the best source of information, largely because secondary data supporting company research in Malaysia is still far from sufficient, and research on SMEs, being mainly qualitative, is based on rough estimations or focuses on particular case studies of selected regions. The research questions were operationalized in a questionnaire adapted from Soderman et al., (2008) using the questionnaire among a group of executive MBA students at Shanghai University and now is used for similar studies, adding validity to this form of research. The target population of this study is managers in manufacturing sectors in Selangor, Negeri Sembilan, Malacca and Johor Bahru states. These areas

are chosen as those regions are where most industries located. The survey is targeted to obtain 100 respondents. The writer explains the study for 1 hour before the questionnaires are to be filled in.

## RESULT AND DISCUSSION

Based on the four propositions, analysis is performed to verify the proposed propositions.

**Proposition 1:** *Malaysian exporting companies have a different initial position compared to that of Western companies when starting their export activities as form of internationalization.*

The survey indicates that at the moment 74 % of the Malaysian companies are in the position 1, high volume production whose focus is on cost efficiency and low price which confirms initial assumptions in Proposition 1. This is due to historic and country-specific reasons striving for cost leadership and aims to maximize market shares supporting the notion that is only products successfully exported from Malaysia are those that are positioned in the low-price segment of their specific markets. The blatant example of this is Air Asia and Proton. This is in contrast to Western companies, which have originally applied the high-price/low-volume strategy. Inspiring by the success story of Air Asia, very likely that Many Malaysian exporters are triggered to adopt the stereotype price leadership strategy due to corporate climate, factor costs and demand conditions in Malaysia and still believe that a low-price strategy is the main competitive advantage.

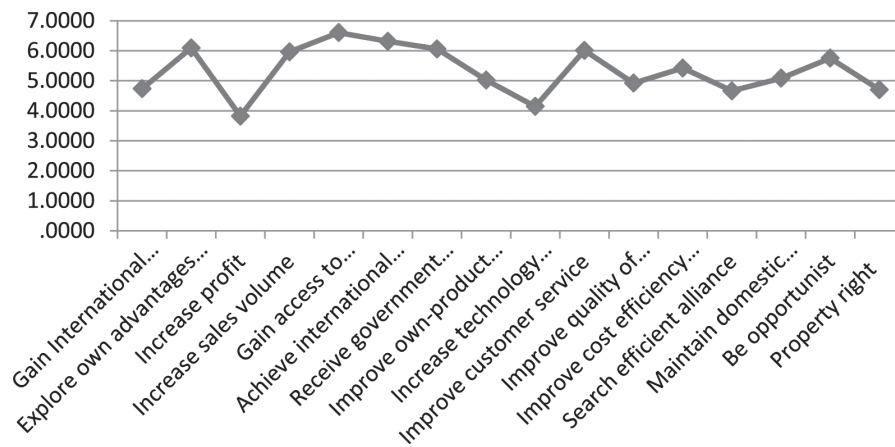


Figure 3. Perceived drivers of Malaysian companies' internationalization

**Proposition 2:** *Internationalization motives are triggered by 16 cues.*

The 16 drivers are: getting international experience, gaining access to internationally experienced management or human resources, exploring own advantages on markets abroad, increasing profit, improving customer service, increasing sales volume, achieving international reputation and brand recognition, getting government support and finance, improving own product development and innovation ratio, improving cost-efficiency in production, increasing technology content on own products, improving quality of products, improving cost efficiency in production, searching efficient alliance, maintaining domestic positioning, being opportunist and finally securing property rights and intangible asset advantages. The entire perceived value of the 16 drivers in the 7-graded Likert scale on the 100 sample of the population for Malaysian companies' internationalization is depicted on Figure 3. Two drivers that have proven to be among the most important are 'gaining access to internationally experienced management or human resources' and 'achieving

international reputation and brand recognition'.

Observing Figure 3, the survey shows that all the studied drivers are important to the respondents except five drivers are rated less important than the others; getting international experience, securing property rights and intangible asset advantages, searching efficient alliance, increasing technology content of own products and increasing profit is rated the least important. Since there is a lot of supporting government bodies that offer various types of assistance to the SME internationalization including some financial assistance, it is not surprising that this driver is ranked the last amongst the five drivers. Finding that gaining access to internationally experienced management or human resources is ranked as the most important is in line with Zizah et.al. (2010) who find out that the most influential factors for Malaysian SME internationalization is networking. The reliance on networking is substantial in SME internationalization as proven by findings in other developing countries like Romania (Musteen, Francis, and Datta, 2010).



**Proposition 3:** *The 16 triggering cues can be allocated to and distributed between four strategic positions, based on expected importance in securing competitive advantage in each position.*

Companies aiming for the high-volume/low-price position put more focus on drivers like exploring own advantages on markets abroad, getting government support and finance, increasing sales volume and improving cost efficiency in production, while companies aiming for the high-price/low-volume position focus more on gaining access to internationally experienced management or human resources, achieving international reputation and brand recognition, maintaining domestic positioning and improving own product development and innovation ratio. This strategy is now applied by Proton Malaysia.

Initially to gain access to internationally experienced management, in May 1983, together with the Japanese Mitsubishi Motor Company, the Malaysian Government established a car manufacturing company called the National Automobile Enterprise Co Ltd (Perusahaan Otomobil Nasional Bhd) or Proton as it is internationally known. By exempting Proton from the high import duties, the government was able to offer its cars at a price that undercut imported vehicles. Such protectionist measures have strengthened Proton's position in the Malaysian domestic car market and since its debut in July 1985, Proton has dominated until recently the Malaysian automobile market and most of its cars are sold locally with a small percentage (less than 20 percent) being exported

to a few countries. Furthermore, to achieve international reputation and brand recognition, and to improve own product development and innovation ratio, in 16 April 2012 Proton Preve under the design of Italian Lamborghini was launched. Soon, Prevé becomes the first Malaysian car to be awarded the full 5-star safety rating in the Australasian New Car Assessment Program (ANCAP) of Australia and New Zealand. Prior to the Preve launching, Proton suffered from a poor safety reputation.

**Proposition 4:** *Because of their country-specific advantages, most Malaysian companies will stay in position 1 but in the future will reposition by leaving the position and aiming for position 3.*

To the statement: *please let us know where your company is positioned in the below price/volume today and 2020 matrix according to your opinion*, 74 % of respondents claim they are in position 1 (Cost Efficiency and Low Price); 16 % in position 2 (Start-Up Company), 6 % in position 3 (Focus on Innovation and Technology Selective Niches) and only 4 % in position 4 (Focus on Growth and Volume). Furthermore 87 % respondents in the future will reposition to position 3 (Focus on Innovation and Technology Selective Niches) and only 13% in position 4 (Focus on Growth and Volume). This finding confirms initial assumptions in proposition that most Malaysian companies will stay in position 1 but in the future will reposition by leaving the position and aiming for position 3. This position experiences migration from all the other squares proves with the number of firms in the

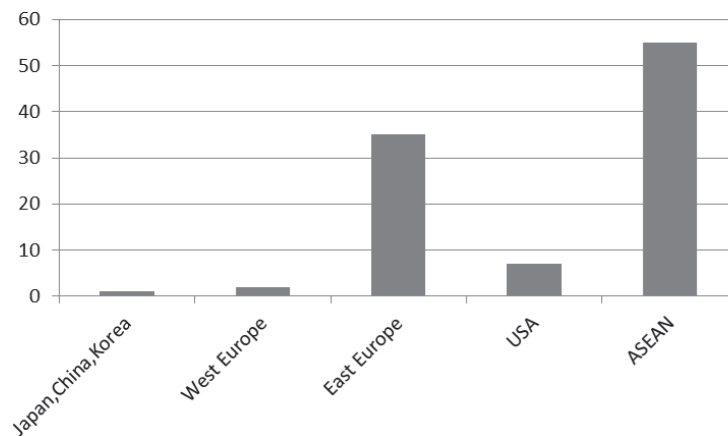


Figure 4. Attractiveness of different regions for Malaysian companies

field is increasing from 6 to 87 percent. Position 4 shows slight increase from 4 % into 13 % indicating that some companies chose to focus on volume rather than niche positions in order to defend their profitability. Most of the companies try, as suspected, to avoid staying in position 2 but surprisingly none of the companies wish to maintain competitiveness in position 1.

Interesting to note here is that the year 2020 is the target sets up by current government to bring Malaysia into a fully developed country. *Wawasan 2020* or Vision 2020 is a Malaysian ideal introduced by the former Prime Minister of Malaysia, Mahathir bin Mohamad during the tabling of the Sixth Malaysia Plan in 1991. The vision calls for the nation to achieve a self-sufficient industrialized nation by the year 2020, encompasses all aspects of life, from economic prosperity, social well-being, educational world class, political stability, as well as psychological balance. The close link between internationalization of company and government support make companies align strategies to government vision and agenda resulting in adjustment of the strategy reflecting the fully industrialized country to be.

As shown in Figure 4, the most attractive market for most companies is ASEAN followed by East Europe and America. This indicates East Europe could be the most attractive market outside Asia. A possible reason for this is that competition in East Europe is perceived as less competitive than West Europe and America. Another possible explanation for East Europe preference is that when the research was conducted, the economic condition of the Triad Countries (West Europe, America, Japan) where mostly export are addressed, is still under recovery making purchasing power is less. The percentage figures show how many of the respondents have stated a market to be attractive.

The finding that ASEAN is still the most attractive market for Malaysian companies indicates that some internationalization may gradual at speed. Therefore, the Uppsala models that represent gradual perspective are applicable in understanding internationalization in Malaysia.

However this concept is not applicable for Proton which is notably not well accepted in Singapore and Indonesia but well accepted in Australia and

New Zealand. The dominant logic in ASEAN is that to be successful the product must be accepted in Singapore (representing quality) and Indonesia (representing quantity) as usually practiced by Apple, Blackberry and formerly known Nokia that introduced the newest product either in Singapore and Indonesia while this is not practiced by Proton.

From the theoretical aspects, the gradual approach presented in the Uppsala Model is expected to explain internationalization process; however gradual approach must be translated in Proton's way that is: gaining access to internationally experienced management or human resources, achieving international reputation and brand recognition, maintaining domestic positioning and improving own product development and innovation ratio. Through these gradual steps, companies enhance their knowledge on foreign markets which in turn supports the gradual view of learning process proposed in the Uppsala Model.

## CONCLUSIONS

The drivers behind the internationalization of Malaysian companies are proactive as well as reactive motives. Being the latecomer, many companies in Malaysia pursue internationalization in order to gain assets that can help them address relative disadvantages. This is contrary to the assumption of mainstream theories that internationalization is driven by companies wishing to exploit ownership advantages (Hennart, 2012). Malaysian companies are addressing 'complementarities' by seeking assets such as technology, brand knowledge, RandD capabilities and internationally experienced management.

Similar to Chinese companies (Soderman et.al, 2008), Uppsala model concept of psychic distance by preference to start exportation to neighboring countries seems to apply also for Malaysian companies, as they cite Asia as the most attractive market. As competition increases in their domestic market, great numbers of Malaysian companies will consider Western markets attractive for their products and services thus make the company reposition their strategy. Being a commonwealth member, Europe could be a target market, and from a Malaysian perspective, could be seen as an interesting market with a potential for higher margins, higher price levels, however, Europe does not represent a neighboring or 'home' market, as do markets in South-East Asia making the Uppsala model concept of psychic distance and Porter's overall cost leadership are no longer relevant. With the rise of China and the Asian region, there is a constant pressure on Malaysia to reorient and upgrade its trading patterns. With increasing competition follows a change in activities and with a change in activities follows also a change in who are the most important partner countries.

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