



ISSN: 0975-833X

## RESEARCH ARTICLE

### INTERNATIONAL BUSINESS THEORIES TO ANALYSE ON THE SUCCESS OF A CHINESE COMPANY, A FOREIGN COMPANY IN MALAYSIA AND A MALAYSIAN COMPANY

<sup>1,\*</sup>Dr. Lim, Gee Nee and <sup>2</sup>Dr. Lee, Mun Seng

<sup>1</sup>KDU University College Penang, Malaysia

<sup>2</sup>Quest International University Perak, Malaysia

#### ARTICLE INFO

##### Article History:

Received 24<sup>th</sup> February, 2016

Received in revised form

23<sup>rd</sup> March, 2016

Accepted 10<sup>th</sup> April, 2016

Published online 10<sup>th</sup> May, 2016

##### Key words:

Chinese company, Foreign company,  
Malaysian company, International, Business.

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Citation: Dr. Lim, Gee Nee and 2Dr. Lee, Mun Seng, 2016. "International business theories to analyse on the success of a Chinese company, a foreign company in Malaysia and a Malaysian company", *International Journal of Current Research*, 8, (05), 30965-30967.

#### ABSTRACT

Internal business is comprised by many theories and explanation. This article is aimed on a Chinese company, a foreign company at Malaysia and a Malaysia company in order to elaborate on their success. Each of them are discussed based on individual theory and explanation, thus this gives a good understanding to public on their path of success and the application of international business theories.

## INTRODUCTION

International business is explained by many International trade and investment theories, they may have covered majority trends in business adequately. To achieve a better understanding on these theories, several international companies are used for elaboration in this article, i.e., Khind – a Malaysia electrical goods exporting company, Western Digital an American electronic company based at Malaysia and Tao Bao a China company that exports a very wide variety of manufactured goods. International trade theories indicate various explanations to international trade. Trade is based on exchanging goods and services between two parties, so international trade can be deduced as a trade between two nations. The international trade theories are classified as the classical country-based theories and the modern firm-based theories. In the classical country-based theories, it can be subdivided as mercantilism, absolute advantage, comparative advantage and Heckscher-Ohlin theory, whereas the other one is consists of country similarity, product life cycle, global strategic rivalry and Porter's national competitive advantage (Gandolfo, 2014).

**Mercantilism:** Mercantilism is one of the earliest theories, it implies that the richness of a country is justified by its amount of gold and silver reserve.

If an export is more than the import, i.e., the sales has exceeded the purchases, this will lead a country to financial gain and plethora. Once a country encourages its export and starts to suppress on its import, this has induced protectionism (Gandolfo, 2014). This plot is still being used in many countries currently such as Malaysia and China because it is still a part of neoteric cogitation. For instance, Malaysia and China impose heavy tax duty on imported items, this induces experience prices on them. This indirectly have drawn Khind's product to be more affordable for the Malaysian, definitely the Malaysian are keen to purchase local electronic products with similar quality and lower price (Tan & Chia, 1989). Apart from imposing heavy import tax, China has restricted the entry of certain items. China promotes manufacturing of such items locally and expands its market before allowing these imported items to come in officially. TaoBao is the big beneficent in this case; TaoBao gathers all these local manufactured items, it sells and popularises them within China. With such a huge demand internally, TaoBao is able to seize the entire market before the entry of the imported items. Protectionism indirectly makes TaoBao successful in China (Inch, 2012).

#### Advantages

In absolute advantage, if a country is not subjected to external or administrative interference and able to launch a product in a

\*Corresponding author: Dr. Lim, Gee Nee  
KDU University College Penang, Malaysia.

lower or quicker, it is deemed to have an absolute advantage than other countries and should concentrate specifically on this production. Specialisation promotes working efficiency and trades, it also improve the living standards of a country (Gandolfo, 2014). In 1988, Khind took on the opportunities because it was able to produce electronic products with a similar quality and lower price. It distributed its products internally and internationally, its price was much cheaper than Japanese product, it was able to capture a huge Malaysian market and populated itself in China and USA just in a several years (Khind, 2013). China has possessed a good comparative advantage. Comparative advantage arises when a country is unable to manufacture a specific item effectively but other items, itemphasises on the relative output distinction. China is aware that electronic manufacturing is not their absolute strength but textile or small household items are their relative strength, China puts heavy weighting on its light industries with rapid turnover. This causes a flourish bloom in a very wide variety of manufacturing, TaoBao collects all these items and acts as a middle man platform to facilitate the sales. With rapid sales and great amount, this has driven the popularity of TaoBao higher (Inch, 2012).

### Heckscher-Ohlin Theory

In Heckscher-Ohlin theory is also known as the factor proportions theory. It is defined that countries manufacture and export products in great supply to accommodate the market demand, they have a cheaper production resources or factors. This theory is relied on land, labour and capital. Capital is utilised for investment on factories and instruments. If the demand in the country is low and its manufacturing power is high, its production will be cheap and fast (Gandolfo, 2014). In China, it has a large population of cheap and young labours with inadequate skill, this have led China to be a good place for labour dependent sectors such as textiles and garments. Most of the population has a low demand on luxurious textiles or garment items, TaoBao promotes all these items with low domestic demand, low cost and high price at their international platform. Thus TaoBao has penetrated the overseas market greatly with their excellent price (Inch, 2012).

### Firm-Based Theories

The firm-based theories include other issues and service dimensions such as brand and customer loyalty, technology, quality and appreciation on trade flows. In country similarity theory, it relies on brand names and product reputation that determine the buyer's choice and sales. If a domestic product has indicated a good sale internally, it should forecast a similar potential in another countries with similar market and per capita income because intraindustry trade is rampant (Gandolfo, 2014). As for Khind, its electrical products have successfully penetrated the local market, it believed that similar picture in those countries with similarity. In 1988, Khind landed at United Arab Emirates, its turnover in the Middle East has reached USD\$6 million in 2006 (Khind, 2006).

### Product Life Cycle Theory

Product life cycle theory consists of three phases, i.e., new product, maturing product and standardized product, this theory

is applicable if the product is invented locally. However, it does not elaborate on present business methods with global active movements in research and development. Countries with high skilled workers and lower cost can take over the product and launch it at their domestic market. They reinvent and improve it, they will distribute internationally with their new products (Gandolfo, 2014). Khind has adopted this concept that they absorbed electrical manufacturing skill and facilities from Japan, it innovated, invented new items and export internationally such as the Middle East with a cheaper cost and higher profit margin (Khind, 2006).

### Global Strategic Rivalry Theory

Global strategic rivalry theory is slightly complicated, it is applicable mainly on multinational companies because it is a global competition between these companies with another similar firms in the same industry. For a firm to enter the market, there will be barriers for them to overcome. Overcoming such barriers will give the firm a competitive advantage. To combat against such barriers, the firm usually improve on their research and development, the ownership of intellectual property rights, economies of scale, its special business methods, its valuable experience in the field, the management of resources and accessibility to raw items (Gandolfo, 2014). In the case of Khind, it has established itself in 60 countries, it has three mainly branches, i.e., Malaysia, Singapore and Hong Kong. Khind is evolved into Amultinational Company. When they acquired its technologies from Japan, they invested into research and development. With their new products, they seek intellectual property rights on them. Manufacturing in Malaysia will be cheaper than in Japan with a lower labour cost, Khind currently has almost 500 items with possible yearly increment of 80 new items. Khind has proven the global strategic rivalry theory correctly as it has overcome most of its obstacles and thrived nicely internationally (Khind, 2006 & 2013).

### Porter's Theory

Porter's national competitive advantage theory is country based, not firm based. It stresses on the contesting power of a nation in an industry and it is relied on the power of national invention and advancement on its research and development. There are four factors in this theory, i.e., local market resources and capabilities, local market demand conditions, local suppliers and complementary industries, and local firm characteristics (Gandolfo, 2014). China may not have a specific or absolute advantage, it has a greater relative advantage to manufacture other products with lesser skill and technology. With the advancement in informational technologies, TaoBao takes the opportunities to make itself a giant national internet platform for purchasing. In the term of local market resources and capabilities, China has many young and cheap labours with lower skill to accommodate the local resources and capabilities. Manufacturing in textiles or garments does not require high skill and technology, all these give China a sustainable competition. Those lower end products with higher domestic demand TaoBao will sell them online with a very good price to compete with the global rival at the high street, those expensive items with good international market TaoBao allows

international buyers to bid online to yield a higher profit. TaoBao cuts up all the local suppliers by direct online purchase; all the customers buy their items online and the items will be delivered to them by post. This has reduced many red taps on local suppliers or middle man. Lastly, TaoBao projects itself towards a marketing position for young fashionable female consumers. It brands itself as a centre of fashion, its marketing position inspires many local suppliers for further innovation and improvement on its marketing contest (Inch, 2012).

### International Investment Theories

International investment theories consist of several theories but their aim is to elaborate on the reason of foreign direct investment (FDI) occurrence. Monopolistic advantage theory is associated with an absolute advantage of a country, it is related to a product or factor market imperfections (Cantwell and Narula, 2003). In 1973, Western Digital USA (WD) foresaw a great marketing vacuum and demand with cheaper skilled workers in Malaysia, they established its branch at Penang. They put in their FDI onto Malaysia based on the monopolistic advantage and product market imperfection at the South East Asia. In 2012, WD has achieved a profit of USD\$250 million in Malaysia, its revenue increased to USD\$2 billion (WD, 2013). For the past years of establishment at Penang, WD has transferred its technologies from USA to Malaysia. They train the local workers, they invest on the local subsidiary, they share their information across border to maintain its firm. WD has fulfilled the internationalization theory at the developing stage of its establishment in Malaysia during the 90's (Ismail, 2001).

### Eclectic Paradigm

The eclectic paradigm is a model involving with ownership advantages, location advantages and internationalization advantages. Ownership advantages refer to the competitive advantages of a firm to utilise FDI, location advantages imply the geography that maximizes the ownership advantages and internationalization advantages allow the firm to produce its own product at a foreign land and trade back to themselves internally with a lower price. This paradigm takes an assumption trading with other company is always more expensive than trading internally (Cantwell and Narula, 2003). WD has demonstrated nicely on this paradigm. In the early 70's, WD acquired a strong knowledge and advantages on electronic in the market. With its ownership advantages, they have chosen Malaysia to open their overseas branch and put in its FDI.

Malaysia had cheaper skilled workers, this gave WD a better location advantage. Subsequent years WD transferred its technologies and trained many local workers to produce numerous electronic parts. All the end products are shipped back to USA for further assembly of other electronic items. Internally trading between the subsidiary in Malaysia and USA will be certainly cheaper than trading externally with others. Again, in 2012, WD has achieved a profit of USD\$250 million in Malaysia, its revenue increased to USD\$2 billion (WD, 2013). WD has highlighted a successful example of the eclectic paradigm. In conclusion, many international trade and investment theories have covered most of the international business. These theories are adequate for overall studies, they explain international trends nicely.

### Conclusion

In summary, every company has possessed its own advantages in the field of international business, each of them has their own strengths and weaknesses. It is entirely dependent on its external and internal factors together with globalization. In times, these companies will thrive further with their individual advantages, their success should be a great learning for us.

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