

**INTERNATIONALISATION OF THE HOUSING  
DEVELOPMENT SECTOR: A STUDY OF THE  
MALAYSIAN SCENARIO**

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**UNIVERSITI SAINS MALAYSIA**

**2007**

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**by**

**AHMED USMAN AWIL**

**Thesis submitted in fulfilment of the  
requirements for the degree of  
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## **ACKNOWLEDGEMENT**

Writing this acknowledgements page provides me an opportunity to identify and convey a message of appreciation to people who have contributed to the completion of this thesis. First and foremost appreciations are due to my supervisor, Prof. Abdul Rashid Abdul Aziz. He has been both a mentor and a guide. A mentor because he introduced me to the field of internationalisation and construction management and a guide because of he shared his knowledge and resources selflessly.

This thesis benefited from the insight and recommendations suggested by my thesis examiners; Prof. George Ofori, Associate Prof. Dr. Omar Osman and Dr. Mastura Jaafar. I must also acknowledge the academic and administrative staff of the School of Housing, Building and Planning who provided a conducive atmosphere which facilitated the completion of this thesis. A special mention is due to Dr. Linariza Haron, for her help in the initial stage of the study. My friends both Malaysian and foreigners in USM have been wonderful. Appreciations are also due to other members under Prof. Rashid's research team; past and present.

I would also like to acknowledge the help of Malaysian housing developers at different stages of the data collection process. I am not at liberty here to name individual names of either manager or developers, but I do sincerely appreciate their contributions; both time and resources, especially during the data collection stage. This thesis would not have materialised with the financial support provided by Malaysian National Institute of Valuation.

Lastly, appreciations are due to my parents, Dr. Amina and Dr. Tirike and my elder brother, Mahdi and his family. Importantly, my wife, Shukri Saeed, was both a companion and a supporter of during this journey of life.

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## LIST OF ABBREVIATIONS

BOT	Build Operate Transfer
BPO	Building Process Outsourcing
CEO	Chief Executive Officer
CGC	Credit Guarantee Corporation
CIDB	Construction Industry Development Board
CRC	Centre on Regulation and Competition
EPF	Employees Provident Fund
EXIM	Export Import bank of Malaysia
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
JV	Joint Venture
IMD	International Institute for Management Development
IPC	Indian Planning Commission
LSA	Local State Authority
MASSCORP	Malaysian South-South Corporation
MATRADE	Malaysian External Trade Development Corporation
MD	Managing Director
MNE	Multinational Enterprise
ODPM	Office of the Deputy Prime Minister
PLC	Product Life Cycle
REHDA	Real Estate Housing developers Association
REIT	Real Estate Investment Trust
RM	Ringitt Malaysia
RSI	Risk Significance Index
UN	United Nations
UNCTAD	United Nations Centre on Trade and Development
WB	World Bank

# **PENGANTARABANGSAAN SEKTOR PEMBANGUNAN PERUMAHAN: SATU KAJIAN KE ATAS SENARIO DI MALAYSIA**

## **Abstrak**

Perubahan struktur ekonomi, kemajuan sektor perumahan dan peningkatan kadar urbanisasi telah meningkatkan permintaan terhadap rumah dan mewujudkan peluang-peluang berpotensi kepada pemaju perumahan. Kebelakangan ini, sektor perumahan memperlihatkan firma-firma meraih peluang pembangunan di luar pasaran tempatan. Matlamat kajian ini adalah untuk menyelidiki usaha pengantarabangsaan pemaju-pemaju perumahan tempatan. Tujuan kajian ini adalah untuk menyelidik dan memahami faktor-faktor penting yang membolehkan pemaju tempatan bersaing di peringkat antarabangsa. Tambahan pula, matlamat kajian ini adalah untuk menguji sama ada teori pengantarabangsaan dapat diaplikasikan di dalam sektor pembangunan perumahan. Kajian ini mensasarkan pemaju-pemaju perumahan Malaysia yang telah berpengalaman di luar negara menerusi pendekatan metodologi percampuran dua tahap.

Penemuan kajian ini membincangkan bahawa pemaju perumahan Malaysia telah dibantu oleh kedua-dua kelebihan pemilikan yang diperoleh secara dalaman dan yang diperoleh dari kerakyatan. Kajian ini telah mendapati bahawa teori pengantarabangsaan boleh diaplikasi di dalam sektor perumahan, tetapi, peranan kerajaan dan peluang kebetulan telah mempengaruhi lokasi dan kepesatan pengantarabangsaan pemaju perumahan tempatan. Tambahan lagi, penemuan kajian ini juga menonjolkan peranan kritikal pembuat-pembuat keputusan. Berdasarkan penemuan kajian, implikasi teoritikal dan praktikal terhadap sektor perumahan telah dibincangkan dan kajian-kajian susulan telah dicadangkan.

# **Internationalisation of the housing development sector: A study of the Malaysian scenario**

## **Abstract**

Structural changes in economies, reforms in the housing sector and increasing urbanisation rates has both increased the demand for the housing and created potential opportunities for housing developers. The housing sector has recently been experiencing increasing activities by firms undertaking housing development activities away from home markets. This study aims to examine the internationalisation of housing developers from Malaysia. The purpose of this study was to find the present export capabilities of Malaysian housing developers and to investigate and understand those significant factors that enable them to be competitive internationally. Additionally, this study aims to test whether the theories of internationalisation are applicable in the context of the housing development sector. This study targeted a sample of internationally experienced Malaysian housing developers through a two-stage mixed methodology approach.

The findings of this study argue that Malaysian housing developers were helped both by their internally generated ownership advantages and ownership advantages accrued by virtue of their Malaysian ownership. It was found that theories of internationalisation were applicable to the housing sector, but, the role of government and chance events to have played an important role in directing the location and the pace of their internationalisation. Additionally, the findings of this study point to the critical role of the decision-makers, who we term as “pioneer-entrepreneurs.” We found no support for Malaysian housing developers internationalising based on cultural or linguistic affinities. Based upon the study findings, theoretical and practical implications for the housing sector are discussed and suggestions made for future research.

# CHAPTER ONE INTRODUCTION

## 1.1 Introduction

Internationally there has been an increasing demand for housing due to increasing rural-urban migration, economic restructuring and reforms in the housing sector. Increases in income coupled with low interest regimes have made housing affordable to a large number of people thereby increasing the available stock of houses (Kenny 1998). Demand for housing has also benefited from increasing purchasing power of the population brought about by higher rates of economic growth. Ofori (1989) and World Bank (1993) found that as the purchasing power increases, the demand for better housing also increases. Internationally, the housing markets are converging due to the reduction in barriers to trade, adoption of internationally recognised standards and the development of internationally operating professional consultants (Rodney 2002).

Recent changes in the dynamics of national economies, economic reforms, liberalisation of markets, changes in technologies and movement of capital have changed the previous economic status quo (Martin 2003). These transformations in economies have mostly been evident in the Asia Pacific region (Malaysia, Singapore, Indonesia and Hong Kong) since the early 1990's, where there has been an increasing role for foreign housing developers in those countries that have experienced economic liberalisation, high urbanisation rates and reforms in the housing sector. These housing developers have been primarily from this region, i.e. from developing countries to developing countries.

Preceding the internationalisation of housing developers from this region has been a solid economic growth that has transformed their economies. The economies of these countries have benefited from increasing integration of markets, changes in technology and deregulation in many industries (Martin 2003). The accumulation of technology and experience has allowed firms from developing countries to develop competencies at home that make them competitive internationally (Aykut and Ratha 2003; UNCTAD 2006). Statistically, foreign direct investment (FDI henceforth) to developing countries has increased from US \$ 3.8 billion in 1970 to US \$ 320 billion in 2005, though there are some FDI initiating from developed countries, the majority is from developed countries (UNCTAD 2006). These large inflows of FDI into developing countries have created indigenous firms that have benefited from such infusion of capital and technology into the local economy (Young et al. 1996; Li 2003; Deng 2003; Aykut and Ratha 2003; IBM 2005; CRC 2005 and UNCTAD 2006). Statistically figures show an increase of outward FDI from developing countries, from US \$ 12 billion in 1990 to US \$ 122 billion in 2005 (UNCTAD 2006).

The question that is pertinent to this thesis is that; is there an international housing market? This question can be answered by following a previous question that was raised by Strassman and Wells (1988) in their book on global construction industry. In it they argued that there is no global construction industry in the sense of global textile or steel industry where production can be in one continent/country while the consumers are located in another continent/country. For such definition presumes that production will be traded

across multiple locations and the participants are not limited to competing in any particular environment and that both production and consumption are interchangeable and will be undertaken in locations that offer the most economic proposition to the investors. The presupposition for the housing sector is that the end product is fixed and that a large portion of it will be utilised by the local populace.

The globalisation of markets was observed in the 1970's and 1980's (Levitt 1983), however the housing development sector has been less integrated internationally as compared to manufacturing or services. The reasons that have mitigated housing developers from not fully utilising the emerging opportunities internationally are manifold. Firstly, the housing development process has unpredictable discontinuities in its activities, production is in multiple locations and that production is aligned to changing markets (Priemus 1996). Secondly, housing industry is less technologically intensive than many industries (Ball 1999). Thirdly, due to the size and ample growth of the national local housing sectors, there are fewer resources devoted by the management to the exploration and exploitation of the international opportunities. Lastly, there has been no dissemination of information regarding opportunities and changed economic conditions by either governmental organisations or trade associations.

The question that then arises is; in what way and form will non-local participants be able to participate in such a market? The answer to this question lies in the theories of foreign direct investment that envisage that there are some type of

activities in which foreign participants are better endowed than local participants (Hymer 1960/76, Vernon 1966, Buckley and Casson 1976, Dunning 1980, 1988). These endowments that the foreign participants possess eliminate the tag of “foreignness” and ensure their competitiveness vis-à-vis local competitors (Hymer 1960/76). Another way that foreign participants can play in the local housing market is through the process of disaggregation of the development process. Disaggregation in the development process has been aided by the increasing mobility of capital, enterprises and personnel in an environment of economic liberalisation and reforms. In parallel situation to the construction sector, Strassman and Wells (1988; 1) argued that;

Even if the end product is fixed, however, there is evidence that many of the factors of production used in construction process are exceedingly mobile.

This thesis discusses how Malaysian housing developers have internationalised and benefited from economic liberalisation, reforms in the housing sector and increasing integration of economies in many parts of the world.

## **1.2 Malaysia as a trading nation**

In the period preceding its independence in 1957, Malaysia has been a participant in international trade in terms of it being a source of raw materials. Its principal exports in this era were tin, palm oil and rubber. Raw rubber exported was turned to tyre by Firestone and later used for Henry Ford’s T-Model. In the post independence period, Malaysia, initially followed import substitution path of industrialisation, but low economic growth and unequal economic distribution among the population made Malaysia look to other means

of economic growth (Rasiah 1995). Subsequently, beginning in 1971, Malaysia allowed the extensive participation of foreign firms through the setting up free trade zones. These zones allowed foreign firms to set up manufacturing facilities that were meant for export. Thus these incoming investments into Malaysia (US \$ 94 million in 1970 to US \$ 1.4 billion in 1982; UNCTAD 2006) created and sustained an export-led industrialisation that transformed the Malaysian economy (doubling of the per capita GDP from US \$ 2079 in 1970 to US \$ 3954 in 1982, World Bank 2005b).

Over the past quarter of a century Malaysia has achieved an economic transformation based on an export-led economy. FDI into Malaysia, principally in the manufacturing sector, created new economic opportunities through the setting up of manufacturing facilities in free trade zones. These manufacturing facilities located in cities created a new division of labour through investments directed towards manufacturing and with it transformed the urban-rural population causing an increase in urban population. The share of manufacturing in national GDP increased from 12 percent in 1970 to 30 percent in 2000 (World Bank 2005b). The Malaysian economy subsequently experienced a period of economic slowdown (1985-88) but subsequently experienced a period of high economic growth with an average GDP growth of 8.7 percent between 1991 and 1995. Overall Malaysian economy has grown at a steady rate of 4 percent between 1960 and 2000 (World Bank 2005b). There was a period in the late 1990's (1997-98), when the Malaysian economy contracted (GDP contracted by 7.2 percent in 1998), currency devalued (from RM 2.4 RM to 4.5 and finally fixed to RM 3.8 to the dollar) and business confidence decreased. Due to the

Asian financial crisis, the domestic economy contracted and has yet to reach the soaring heights reached in the pre-financial crisis era of 1987-1997.

Among the developing countries, Malaysia is considered to be the one of the most advanced in terms of trade and industrialisation; it is ranked 23rd in IMD World Competitiveness Survey, 25<sup>th</sup> in World Bank's Doing Business 2007 survey, 26<sup>th</sup> in the World Economic Forum's Competitiveness Index, 28<sup>th</sup> in the 2005 survey of the UNCTAD Trade and Development Index and 25<sup>th</sup> in Economist Intelligence Unit's business environment index. In most surveys of global competitiveness and business environment, Malaysia ranks the highest among developing countries (it is first in the World Economic Forum survey). As it increased its economic growth, Malaysia, also developed local enterprises that gained from interaction with foreign firms (CRC 2005) and catering to increasingly prosperous local population. The Malaysian experience of export-led industrialisation has advanced the interests of the government towards developing an external market for the local economy. Local firms started internationalising tentatively in the late 1980's and extensively by the early 1990's. These Malaysian firms utilised their experiences in Malaysia to enter other developing countries (Zin 1999). Malaysian firms subsequently started undertaking FDI in many developing countries.

The Malaysian economy has been an early beneficiary of inward FDI. These capital and technological infusion into Malaysia has upgraded the local firms and transformed the local economy (Rasiah 1995; World Bank 2005b). Fig. 1.1, below shows the FDI inflow and outflow for Malaysia between 1970 and 2005.

As the figure shows Malaysian firms have only been seriously active internationally since the early 1990's. Among the early Malaysian firms that internationalised were the services and manufacturing sector, followed by the construction sector in the late 1980's and early 1990's, and lately by the housing developers.

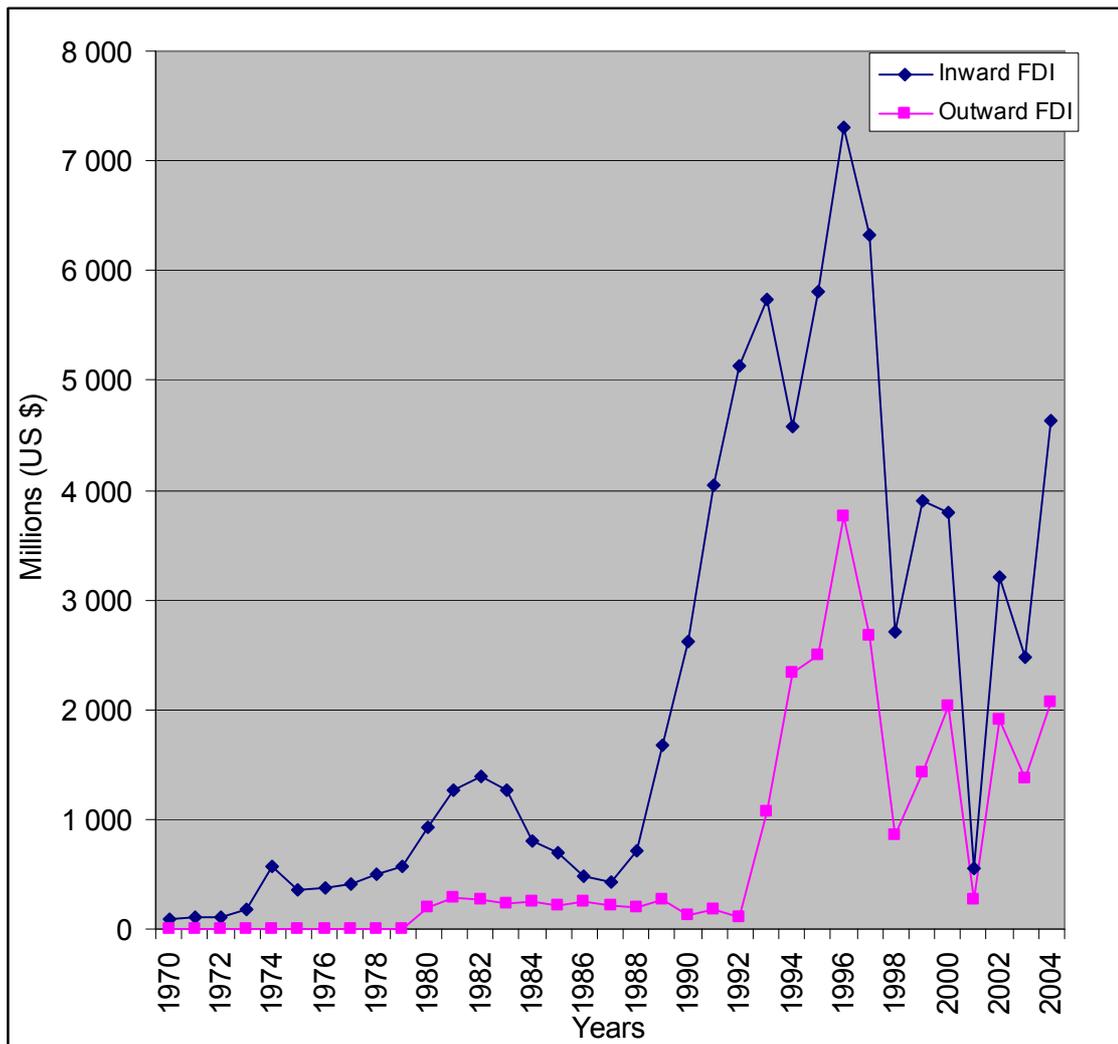


Fig. 1.1: FDI into and out of Malaysia (1970-2005)  
Source: (UNCTAD 2006).

The Malaysian political leadership has encouraged the internationalisation of local firms and provided both institutional and political support (CRC 2005, Awil and Rashid 2005). The rationale behind the support to the internationalisation of

local firms was to leverage their experiences, upgrade their technologies, and enhance the balance of payments (Setapa 2004). Lewis and Richardson (2001) argued that firms that have chosen to internationalise enjoy competitive advantages over domestically-focused firms. Firms that internationalise see strong growth in jobs, market growth and sales. They also spur regeneration of home industry through the acquisition and transmission of newer business practices. Christensen *et al.* (1987) argued that internationalised firms are larger in size, have better quality control, are more diversified and rely less on government incentives. Ling (2005) found that built environment firms that internationalise achieve higher sales growth, increased profitability and diversification of business locations. Galan *et al.* (1999) argued that international markets are competitive and it requires firms to be technologically capable and innovative in their products and services to be better positioned to internationalise. The general literature on internationalisation supports the notion that internationalisation improves the financial performance of the firm (Grant *et al.* 1988; Daniels and Bracker 1989; Geringer *et al.* 1989).

### **1.3 Theoretical background**

Internationalisation has been a concept that has been present in various forms since the 19<sup>th</sup> century. Its earliest forms included exporting of products, both raw and finished, from home country to multiple locations. Since the end of the Second World War, a new form of international trade i.e. FDI has emerged. FDI entails investment in the form of foreign production intended for consumption by either the local populace or for export to other locations. Additionally there has

been a gradual integration of markets, and with it the distinction between home and host markets disappearing (Martin 2003). These changes were underpinned by economic reforms, deregulation, and technological developments, economies of scale and scope and cultural homogenisation (Segal-Horn 2002). Such a reality has made it possible for firms to consider locating activities away from home markets, providing services in distant locations and considering loosening the concept of home and host markets.

Early researchers of internationalisation like Hymer (1960/76), Dunning (1980), Vernon (1966), Buckley and Casson (1976), Johanson and Wiedersheim-Paul (1975) and Johanson and Vahlne (1977) concentrated on explaining foreign production based on manufacturing and exporting of goods. Recent researchers like Cavusgil (1980; 1984), Oviatt and McDougal (1994), McDougal et al (1994) and Johanson and Mattson (1988) have argued from the perspectives of mergers and acquisition and strategic relationships. Edvardsson *et al.* (1993), Brouthers *et al.* (1996) and Roberts (1999) have discussed internationalisation theories from service firm perspectives. Andersson (2000; 2004) has taken the debate on firm internationalisation further and argued on behalf of the entrepreneurs and their central role in the process. In the construction sector, Seymour (1987), Strassman and Wells (1987), Abdul Rashid (1991), Raftery et al (1998), Crosthwaite (1998; 2002), Cuervo (2002) and Ofori (2000; 2003) have brought into focus the way internationalisation has impacted on the construction sector. On the other hand most of the literature on international housing development is dominated by two streams of research; those studies dealing with the issues of cross border portfolio investments (McAllister 1999;

Worzala 1994) and those studies of housing sectors and policies for a given number of countries (Walker and McKinnel 1995; Doling 1999).

#### **1.4 Definition of terms**

It is pertinent at this stage to define the different terms used in this thesis. As this thesis discusses the internationalisation of housing developers, we will present an operational definition for each of the two terms “internationalisation” and “housing developers.” We will initially define internationalisation and then move on to housing developers.

Welch and Luostarinen (1988; 36) defined internationalisation as “the process of increasing involvement in international operations”. Calof and Beamish (1995) defined internationalisation as the process of adapting firms operations to the international environment. Cafferata and Mensi (1995) defined internationalisation as the particular strategic choice made by the firm to establish business relations with foreign partners. Yeung (1999), when considering the internationalisation of ethnic Chinese firms in Asia, defined internationalisation as a process of cross-border operations when a business firm head-quartered in one country controls and influences the strategic decision making of at least one affiliate in another country. Firms become international when they extend their activities into overseas markets (Roberts 1999). Internationalisation may also be regarded as discrete process in which management regards each internationalisation venture as a distinct and individual process (Knight and Liesch 2002).

Hendry (1996) defined internationalisation as the process of leveraging domestic competencies into foreign markets and transferring competitive advantages based on such factors as superior technology and products. UNCTAD (2006) defined FDI as an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor.

The absence of a single definition for internationalisation is a result of definitions based on experiences across nations, locations, cultures, time and industries. Internationalisation is operationally defined in this thesis as:

A strategy adopted by a firm in leveraging its competencies and resources to compete internationally in an era of changing economies and industry.

Housing developers in Malaysia are licensed and regulated by the Ministry of Housing and Local Government through the Housing Developers and Control Act 1966. This Act defines housing developers as:

Businesses developing or providing monies for developing, or purchasing or of partly developing and partly providing monies for purchasing, more than 4 units of housing accommodation which will be or are erected by such development.

The Housing Developer's Act 1966 is not applicable in the states of Sabah and Sarawak which are governed by separate rules and regulations.

Discussions in this thesis are centred on speculative housing development activities rather than portfolio investment. Portfolio investments are concentrated on the purchase and disposal of commercial and residential properties that are pre-built (Cadmán and Austin-Crowe 1982). On the other hand speculative housing development is premised on the conceptualisation, planning, construction and subsequent marketing of housing developments. It is an investment that requires an investor to initiate investment in land (either outright purchase or in partnership), planning and construction of structures and the subsequent marketing and sale of the development; all these are initiated and executed without any confirmed buyer for the proposed development (Naim and Barlow 2003). It is an endeavour that has multiple stakeholders, long investment period and requires the translocation of company personnel to supervise and execute such a development.

### **1.5 Research problem**

The housing sector has attracted less attention when discussing internationalisation. This is quite surprising given the limited number of international housing developers that have been in operation since the middle of 1990's. It is estimated that by late 1990's that FDI into the real estate accounted for one-third of all FDI into China (Jiang *et al.* 1998). The lack of studies discussing internationalisation in the housing development sector is surprising

considering that FDI not only adds value to resources and capital, but it also is a means to transfer production technology, skills, innovative practices and managerial practices between nations (Mallampally and Sauvart 1999). Among the advantages of FDI in the housing sector that has been cited by the Indian Planning Commission when opening the housing market to foreign developers include, (1) bringing in professional players with expertise in the real estate sector; (2) Introduction to new technology and quality to real estate assets; (3) lower real estate costs in the long run; and (4) generate employment and revenue (IPC 2002). For the Indian government also, the concept behind liberalisation of the housing sector was to bring about competition in a previously unorganised sector that had little corporate funding (Rao 2002). Wu (2001) argues that FDI into the Chinese housing sector has transformed the urban scene and made a qualitative difference to a “socialist city”. Economically the participation of foreign developers in the Chinese housing sector has allowed the state to divert valuable resources to other sector.

Two issues directed the research problem. Firstly, there have an increasing number of Malaysian housing developers who have internationalised into some developing countries. Housing development is considered local and a non-innovative industry (Ball 1999), therefore there is an interest in explaining the firm and national competitive advantages that enables housing developers from one country to internationalise into another country. Secondly, a number of previous studies have examined the internationalisation of firms from different perspectives; construction consultants Crothwaite (2002), construction contractors (Abdul Rashid 1991; Linder 1994; Cuervo 2002) and property

investments (Worzala 1994). However there has been a lack of studies that set out to investigate the internationalisation of housing developers. An earlier attempt on speculative housing developers undertaking internationalisation was done by Tang and Liu (2001), who studied the strategies used by Hong Kong based housing developers to internationalise into China. Their study focussed on the financial returns on projects in China and used annual reports of housing developers as means of comparison.

This study sets out to review and assess the internationalisation of Malaysian housing developers and applies a proposed framework that incorporates the Eclectic Paradigm, the Network Approach and Porter's Diamond Model so as to have a better understanding of the internationalisation of the housing developers. These three frameworks have been validated in past studies of firm internationalisation. Unlike the present study, previous studies (Seymour 1987, Crosthwaite 2002 and Cuervo 2002, Dunning and Kundu 1995) only used a single framework to examine firm internationalisation.

## **1.6 Research objectives**

The fundamental objectives of this thesis is centred on investigating and locating the internationalisation of Malaysian housing developers. This thesis develops a theoretical framework from a review of internationalisation theories and tests this framework through empirical data collected from Malaysian housing developers who undertook internationalisation. The objectives of this thesis are;

1. To locate the significance of internationalisation theories with respect to the internationalisation of the housing developers.
2. To investigate the factors that contribute as significant determinants to the internationalisation of Malaysian housing developers
3. To discuss the motives and drivers of Malaysian housing developers towards internationalisation, specifically the role of the management and contextual factors that drove such agenda, and
4. To present and recommend possible industry and policy specific recommendations for the internationalisation of the housing developers.

### **1.7 Research scope**

This thesis focuses on the internationalisation experiences of speculative Malaysian housing developers. Property development is a wide field that encompasses residential, commercial properties (e.g. shopping complexes, offices), recreational facilities (e.g. multiplexes and amusement parks) and hotels and resorts. A study that sets out to investigate the internationalisation of housing developers active in a such a diverse array of activities will entail circumscribing on detailed study and a reduction in the internal validity of the study. This thesis therefore concentrates on a single segment of the property development sector; housing. This thesis does not cover pre-fabricated housing that is exported. Pre-fabricated housing is manufactured in one location and then assembled at the needed location which is elsewhere. It is akin to manufacturing rather than speculative development which is the focus of this

thesis. Canadian manufacturers of pre-fabricated housing have internationalised into Japan and Western Europe, while IKEA have done likewise to United Kingdom. This thesis does not also cover build-only contracts with either governments or private agencies as clients. One example is YTL Corporation which were commissioned to build housing in Papua New Guinea for government employees

## **1.8 Research methodology**

The thesis used a triangulation approach as a method to study the internationalisation of Malaysian housing developers. The use of triangulation approach as a research methodology enables us an opportunity to integrate both quantitative and qualitative approaches with the contextual situation in the internationalisation of housing developers. Triangulation as a research strategy counterbalances the deficiencies of one method with the strengths of another method (Jicks 1979). The research progressed in two stages. The first stage involved a quantitative study of housing developers, which was accomplished through a questionnaire survey. The second stage involved a detailed study of the housing developers through field visits (comprising of interaction with management of the developer, their local partner and site visit) of the housing developers in three countries. Where it was difficult to undertake a field visit, interviews were arranged with the senior management of the housing developers in Malaysia. To increase the trustworthiness of the research among the housing developers, it was decided to include Real Estate Housing developers Association (REHDA) as a collaborator of the study.

## **1.9 Purpose and value of the research**

The increasing integration of markets, liberalisation of economies and reforms of the housing sector have created new opportunities for housing developers in an industry that was previously considered local. Explaining how interaction of the above factors has transformed the housing market is the main purpose of this thesis. From a theoretical perspective, this thesis sets out to test the theories of internationalisation in a housing development environment. Previously the theories of internationalisation have been applied in manufacturing, construction and services industries. The value of this thesis also lies in presenting a better understanding of the housing sector and the way the Malaysian housing developers have leveraged their competitive advantages to internationalise. Internationalisation of housing developers has beneficiaries in both the home and host countries. On a practical note, this thesis advances the way private-sector housing development can help augment the housing development process in developing countries.

## **1.10 Outline of thesis**

This thesis is divided into eight chapters. A brief overview of each of the chapters is given below:

**Chapter 1: Introduction.** This chapter discusses the phenomenon to be studied, the research objectives, rationale and scope of the study is presented.

**Chapter 2: Literature Review.** A review of the pertinent literature of firm internationalisation is undertaken. Theories of internationalisation are presented chronically. Additionally, their advantages and disadvantages are discussed.

**Chapter 3: Housing sector in age of urbanisation and globalisation.** This chapter forms as a contextual source for the study. The chapter endeavours to discuss the housing sector and its relationship with the other sector of the economy is undertaken. The other sections of the chapter discuss the Malaysian housing developer, the changing situation of housing development in age of urbanisation and globalisation.

**Chapter 4: Theoretical Framework.** A proposed theoretical framework for this thesis is attempted. A number of known frameworks of internationalisation are discussed in detail and the suitability of the framework for various industries is undertaken. Finally a proposed framework of firm internationalisation incorporating identified frameworks is presented.

**Chapter 5: Research Methodology.** The chapter deals with the way the research for this thesis was designed, the methods used and the rational for selection of such methods.

**Chapters 6 and 7: Findings.** This chapter reports on the housing developers in the study. Initially data on general information received from the housing developers is analysed. These chapters are presented in two parts. In the first

part, we discuss the quantitative data on internationalised housing developers. In Chapter seven, we present case studies of eight Malaysian housing developers who have internationalised.

**Chapter 8: Discussions.** Discussions on the findings from both the quantitative and qualitative part incorporating the proposed framework are discussed. The chapter seeks to make a continuous link between the findings of the study, the literature reviewed, and theoretical framework.

**Chapter 9: Conclusion.** The chapter draws conclusions from the present study and makes suggestions on future research. Implications derived from this study for both the theoretical and industry is presented.

## **CHAPTER TWO A REVIEW OF THE LITERATURE**

### **2.1 Introduction**

Though trade has been undertaken between nations for a long period of time, only recently has the subject of firm internationalisation attracted a lot of attention, more precisely, since the late 1950's, due to the investments in the form of foreign production by firms from one country in another country. In this period, those firms that undertook foreign production were large, manufacturing-based firms and from developed countries. Since then the number of firms engaging in international trade has increased and the nature and the extent of internationalisation have increased to expand many different concepts than was initially. Since the early 1980's firms from the developing nations too have started foreign production and sales.

This chapter provides a background to the firm internationalisation. Initially the traditional theories of trade are presented in order to understand the foundations of international trade. The economic theories were formulated to describe under what circumstance foreign production would be possible and what factors explain the necessities to locate overseas preferring exporting for foreign production. The process approach to firm internationalisation discusses the mechanics of internationalisation at the firm level. It is intended here to present the various theoretical underpinnings of firm internationalisation as the need to consider internationalisation of the firm as holistic (Fletcher 2001) and multidimensional (Anderson 1993; Lim *et al.* 1993; Leonidou and Katsikeas

1996; Coviello and McAuley 1999) has been expounded in the literature. This chapter may be seen as three sections running chronically in the form of initial theories to give background to the traditional theories of trade, to be followed by more contemporary economic theories of internationalisation and lastly the process approach of internationalisation. The chapter concludes with a summary of the theories of internationalisation.

## **2.2 International trade**

The important role that international trade plays in the nation's economic welfare and development has been strongly cited in the economics literature since Adam Smith's wrote the wealth of nations in 1775. After Adam Smith's work, another classical economic writer, David Ricardo, took up further the theories of international trade and expounded the notion of relative productivity of nations. These theories suggest that economies need to export goods and services in order to generate revenue to finance imported goods and services which cannot be produced locally

Though the above theories of international trade were expounded by Adam Smith and David Ricardo two centuries and a quarter ago yet the applications of such theories were not visible until the beginning of the 20<sup>th</sup> century. The drivers and proponents of international trade at this period of time were multinational companies of American and European origins. These companies were present even before the First World War, but were mostly under imperial control with competition limited to locations where their home countries colonised.

Multinational firms as we know them now emerged only after the First World War, but the rise of transactional corporate economy is largely a post World War Two phenomenon. In the 1950's and 1960's transnational corporations were synonymous with American corporations due to the dominance of the American economy in that particular period of time. It was soon followed by European multinationals in the late 1960's and early 1970's which in turn was followed by Japanese transnational corporations who had by then developed competencies in Japan and were in search of new markets to leverage their advantages in terms of technology and economies of scope. The diversification of transactional companies further developed with the South Korean companies also becoming active in the middle of 1980's. More recently there has been an increasing role for firms from developing countries internationalising (UNCTAD 2006).

The theories of trade in goods and services as propounded by Adam Smith (1775) and David Ricardo (1814) dealt with trade issues at the level of the nations. Others like Heckscher (1919/1949) and Ohlin (1924/1933) have argued from factor endowments as prerequisites for trade in goods and services. Only in the late 1950's and early 1960's were the theories of the foreign direct investments presented with regard to the firm internationalisation. This was necessitated by the investments being undertaken overseas by American with excess capacity after the World War II. These firms initially exported their products and services to a devastated Europe and over a period of time started producing locally so as to be close to the local market. It was because of these

new developments that FDI theories were developed so as to explain as to why American companies preferred to invest overseas.

### **2.3 Foundations of internationalisation theories**

The literature on the internationalisation of firms can be broadly divided into two fields of research; economic and process approaches (Benito and Gripsrud 1992). Others have divided the theories of internationalisation into industrial organisation, economic and behavioural theories. Lall and Streeten (1977) contend that each of the fields of definition is 'useful in its own context.' Understanding internationalisation process requires comprehensive conceptual models and empirical research that is multidisciplinary (Lim *et al.* 1993). Because no single economic theory is powerful enough to provide an explanation to all the factors that drive the internationalisation process, it is important to consider all the different facets that have an impact on the internationalisation process (Vernon and Wells 1986) and thereby pursue and develop methods that best suit the situation that a particular firm may wish to involve in. the internationalisation theories have been into two broad areas; the economic approach and the process approach. Further breakdown of the two approaches is presented below;

1. The Economic approach
  - a. Original MNE (ownership advantage) theory (Hymer 1976)
  - b. Product Life Cycle approach (1966)
  - c. Internalisation theory (Buckley and Casson 1976; 1985; Casson 1979)

d. Eclectic Paradigm (Dunning 1988)

2. The Process approach

a. Stages model

- Uppsala School
- Innovation Related School

b. Network Approach

The economic approach is based on the assumption that operating overseas is more costly than at home, and that for firms to be successful they need to possess compensating advantages that are able to offset the label of foreignness. The proponents of the economic approach to firm internationalisation base their theories on the assumption that all decisions will be predicted in a rational way to choose a given strategy (Buckley and Casson 1998). On the other hand as the involvement of firms in international business is at the firm level (Tayeb 1992), there is a need for inclusion of theories that describe and explain the internationalisation from the perspectives of the firm. Coviello and McAuley (1999) in a review of the concepts and frameworks used in sixteen (16) studies on internationalisation (1992-1998) divided the literature into three frameworks namely;

1. Foreign Direct Investment Theory (Buckley and Casson 1976; Dunning 1988)
2. Behavioural School of Thought (Stages) (Uppsala and Innovation Related Models)