INTERNATIONALIZATION PROCESS OF THAI MULTINATIONAL: CASE OF CHAROEN POKPHAND GROUP (CP GROUP)

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ABSTRACTS

The study of multinational corporations (MNCs) has been a fundamental component of the international business literature. Most studies have focused on the international expansion of MNCs from the western and very little academic attention examines and analyses the internationalization strategies and characteristics of Asian MNCs. This study explored the internationalization process of MNC from Thailand, namely Charoen Pokphand Group (CP Group), a leading agri-business company in the country. Its motives, foreign market selection and foreign market entry strategy chosen in setting up its operations abroad are deeply analyzed. This study discovered that internationalization process of Thai firm through post and pre crisis, where the pre-crisis international expansion relied more on networking capabilities rather than industry-specific technological skill, while the post-crisis adjustments of Thai multinationals displayed a different strategy that placed much more emphasize on strengthening their industry-specific technological capabilities.

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CHAPTER ONE

INTRODUCTION

1.1 Introduction

The first chapter of this study provides some introductory information including background of the study, in this section will explain about the internationalization process of developing countries and Thai outward FDI. Finally, the problem statement, research question, objectives, scope, significance of the study and the study operations.

1.2 Background of the Study

Internationalization is an utmost important factor for firms to grow and develop economically and technologically. (Ahmad and Fariza, 2007) Theories and research on the internationalization of firms (or their expansion across national borders) have received significant attention from many scholars and researchers within the areas of international business, international marketing, and business strategy (Anderson, 1993; Calof and Beamish, 1994; Blomstermo and Sharma, 2003a and 2003b; Ramamurti, 2004, Sim, 2005, and UNCTAD, 2005).

To some key authors, internationalization is the process by which firms gradually increase their involvement in international business activities, and establish and conduct transactions in other countries beyond their national jurisdiction (Welch and Luostarinen, 1988; Beamish, 1990; Pavida and Zeithaml, 1998; Luo, 1999; Sim and Pandian, 2003, Kitchen and Ahmad, 2007).

In spite of the importance of understanding the internationalization process however, most studies have been confined to firms operating in well-established developed countries namely, North America, the European Union, and Japan. Therefore, these studies exhibit perhaps of necessity a distinct Western perspective on the process of international expansion of firms to create competitive advantage, and advance a view that takes into account the development of MNC's from the most advanced and successful economies in the world (Erramilli et al., 1999). However, few studies have investigated the internationalization process of developing country MNCs.

A number of reports from industry consultants (BCG, 2006), business press (Business Week, 2006) and international associations (OECD, 2006) provide evidence of the extent of internationalization of emerging country firms in key industries traditionally dominated by multinationals from developed countries. For instance, the BCG (2006) report identifies the top 100 companies from developing economies in diverse industries such as industrial goods, consumer durables, telecommunications, pharmaceuticals, information technology, among others. Furthermore, these emerging multinationals are internationalizing not only through export operations but increasingly through foreign direct investment including acquisitions. Interestingly, 57% of the acquisitions by these 100 firms during the 1985–2005 periods were in developed country markets. Thus, anecdotal evidence from industry reports and high profile acquisitions by emerging economy multinationals (e.g., Lenovo, Tata, Mittal Steel, etc.) shows both a wider geographical dispersion of these firms in both developed and developing countries as well as in most advanced industries and higher value-adding activities. (Preet, 2007)

Pioneered by the 1983 publications of Lall and Wells, the “third world multinationals” literature has been predominately based on firms from a limited set of developing countries, notably the more industrialized emerging economies of East Asia and Latin America. Among the most recently researched home countries are South Korea, Taiwan, Hong Kong, India, Brazil, Mexico, and Chile (see, for example, Yeung, 1998; Van Hoesel, 1999; Mathews, 2002; Beausang, 2003). With the rise of China as one of the world’s economic powerhouses, Chinese multinationals are also increasingly attracting attention in this academic domain (see, for example, Zhang, 2003; Deng, 2003; UNCTAD, 2006). The heavy emphasis on these countries inevitably leaves out other developing economies that are home to many emerging multinationals.

Southeast Asia is one region that has emerged as an important source of FDI. The region accounted for the third largest amount of outward FDI stock among developing economies in 2005, following East Asia and South and Central America (UNCTAD, 2006). Yet, few studies have been undertaken on Southeast Asian multinational relative to their East Asia counterparts. While there are some similarities, for example, being considered "latecomers" when compared with developed country multinationals, there are considerable differences between East and Southeast Asian multinationals in their growth and international expansion. Among the key variable that contributed to the diversity of multinationals from East and Southeast Asia are differences in home country conditions, diversity in their stage of development, degree of transnational, choices of diversification and international expansion strategy, and ethnic origins. (Pangarkar, 2004)

Foreign direct investment by indigenous Thai firms has received little attention to date, although the notable rise in the level of Thai enterprise internationalization since the late 1980s is now beginning to interest scholars (Pavida, 2001, 2004; Somkiat and Suthiphand, 1997) and private sector organizations (e.g. Federation of Thai Industries) interested in the development of Thai firms' overseas activities. Thai enterprises are internationalizing for different reasons, depending on the industries they operate in; the years of experience in internationalization; the extent of overseas business networks; and the purpose of undertaking FDI. In general, the main motive is market-seeking, which includes extending market reach, supporting distribution and expanding trade channels. (Wee, 2007)

1.2.1 Thai outward FDI

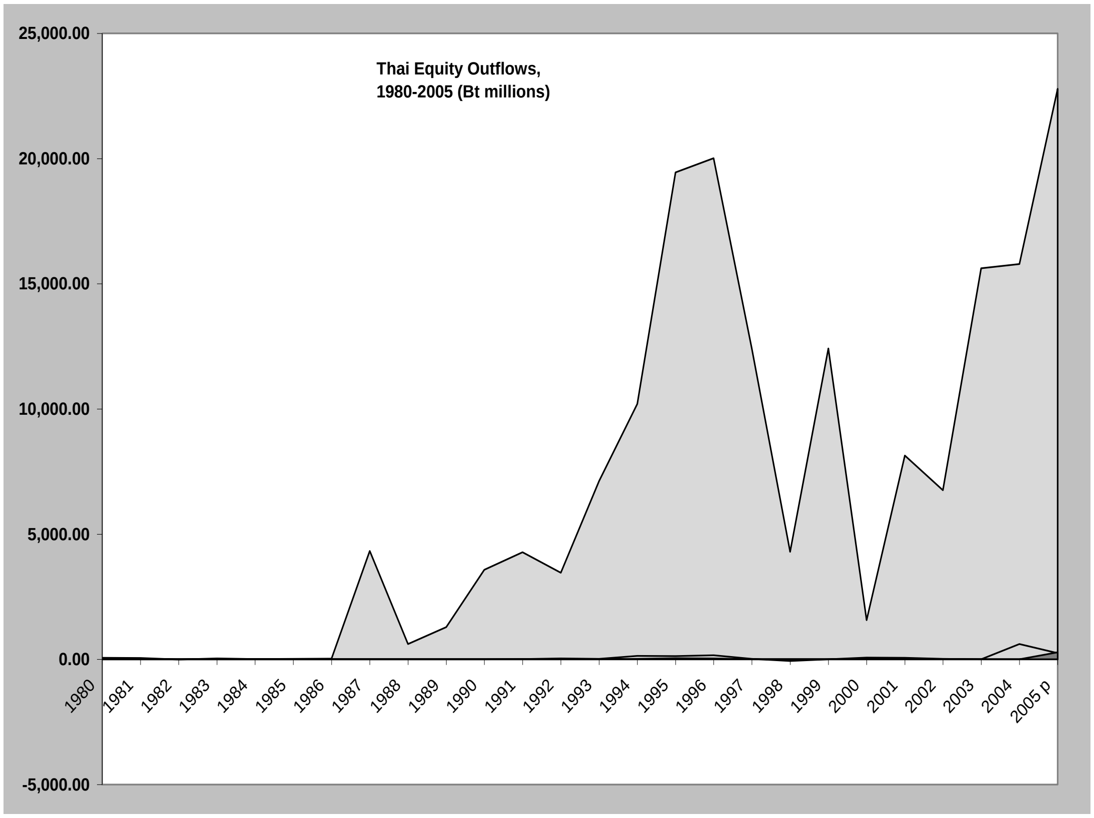
Thai FDI outflows have gone through four different phases (see Figure 1.1): early development (1977-88), rapid rise (1989–97), post-crisis decline (1998-2000), and resurgence (2001-present). During the first phase, Thai FDI outflows were still very modest and concentrated in financial institutions in response to the strict control over foreign exchange transactions and capital movements (Viraphong, 1992). These controls drove domestic banks to set up overseas branches in Thailand's key trading partners (i.e. the US) and leading international financial centres (i.e. Hong Kong and Singapore). These three countries absorbed more than 75 per cent of total outflows during the first phase.

During the second phase, the OFDI stock grew more than 165 times, from US$13 million in 1980 to US$2.2 billion in 1995 (UNCTAD 2005). The removal of exchange controls following the adoption of the IMF's Article 8 in 1990 and the creation of Bangkok International Banking Facilities (BIBF) in 1992 were key factors (Unger 1998). Capital outflows shifted from investment in financial institutions to basic manufacturing industries, particularly food processing and textile. Although the geographical distribution of also broadened, with ASEAN absorbing the bulk of OFDI flows, Hong Kong and the US remained among the most significant destinations (see Appendix 1).

As the economic crisis struck Thailand in 1997, this rising trend took a sharp downturn. The Baht flotation and its subsequent depreciation increased the cost of foreign operations and almost doubled the amount of foreign-currency debts of most Thai firms that had been borrowing heavily to finance both their domestic and international expansions. The third stage of Thai outward investment was therefore characterised by a sharp decline. Investment outflows dropped drastically from Bt20 billion in 1996 to Bt12.4 billion in 1997 and Bt4.3 billion in 1998. Most Thai firms that had been enjoying international expansion decided instead to focus on their domestic survival. Since 2001, many Thai firms have regained their strength and gained the confidence to re-embark on OFDI.

Unlike their ASEAN counterparts, Thai OFDI has not been dominated by any particular industry. (See Appendix 2) Despite an initial heavy concentration in financial services, a result of the exchange controls, OFDI became much more diversified during 1989-1997 (Pavida, 2001a, 2001b). Further diversification is apparent from post-crisis trends, for example in agriculture, the food and sugar industries, and services, in particular trading, construction, mining and quarrying.

Figure 1.1: Thai FDI Outward from 1980-2005



Source: Bank of Thailand

To theoretically and empirically examine the internationalization process of Thai firm, this paper focused on internationalization process of Thai multinationals. Thailand is chosen for this study for three reasons. (Pavida, 2007) First, Thailand is one of the four newly industrializing countries, along with China, India and Malaysia, which have increasingly become home countries to a growing number of emerging multinationals. Within Southeast Asia, Thailand ranked as the third largest source of outward FDI following the more industrialized Singapore and Malaysia. (UNCTAD, 2005) Second, the pattern of Thailand's outward investment has been rather different from that of the more researched East Asia Newly Industrialized Countries (NICs), namely South Korea, Taiwan, Hong Kong, and Singapore. For instance, while outward FDI from the NICs have been concentrated in a few sectors, namely automobiles, electronics, banking and shipping services (Yeung, 1998), the sectoral distribution of Thai outward FDI has been rather diversified, ranging from primary to manufacturing as well as service sectors. Such differences may imply that the multinational expansion of Thai multinationals is different from their East Asian counterparts, and that the conclusions drawn mostly from East Asia experience may not always be entirely applicable to multinationals from other Asia countries. The need to address to intra-group diversity among multinationals from developing countries has been further stressed as more and more emerging countries become sources of outward FDI (Yeung, 1994; Mathews, 2002; Li, 2003; UNCTAD, 2006)

In order to examine the multinational expansion of Thai firm, in general this paper attempts to analyze and describe the internationalization process of a leading Thailand-based MNC, namely Charoen Pokphand Group (CP Group), through an historical approach. The paper will identify the form and behavior of this corporation in streamlining its expansion processes including the motive of international investment, and foreign market strategy, and foreign market selection. Although results from a single case study of a Thai multinational corporation cannot be generalized as representative of all developing-country multinationals, the case does offer interesting insights which can contribute to the literature of developing-country MNCs.

1.3 The Problem Statement

Success in operating abroad is not automatic and there is no guarantee that outward FDI will contribute to increasing the overall competitiveness of an internationalizing enterprise. Much would depend on the motive, corporate strategy, capacity of the firm (for managing international business activities involving complex cultural and legal issues) and the extent of synergy created by the outward FDI activities for the group as a whole. (UNCTAD 2007)

Thai enterprises face a number of challenges and obstacles when going abroad. The main challenges are capacity constraints and complacency on the part of Thai firms. The major issues facing Thai enterprises' overseas investment include the following: [Brimble and Atchaka (2005), Atchaka (2004), NIDA (2005), Bangkok Bank (2005) and UTCC (2005a, 2005b)]

- ❖ Difficulties in understanding complex policies and regulations in host countries,

- A lack of market information. Many Thai investors lack indepth information on host country markets, which results in reluctance and delay in decision-making on outward FDI.
- A lack of coherent institutional support and government guidance also plays a role. Although the Government of Thailand has provided several measures to promote outward FDI, unclear policies and programmed and the lack of coordination among the various implementing agencies have confused Thai enterprises.
- Few significant Thai government incentives encouraging Thai firms to invest overseas. Other countries offer various incentives such as grants, subsidized loans or tax breaks to encourage their enterprises to go abroad.
- Limited access to finance has restricted Thai firms, especially SMEs, to venture abroad. The difficulties in raising funds from Thai financial institutions as assets overseas cannot often be used as collateral have restricted Thai enterprises' ability to raise finance.
- The absence of skilled human resources, especially in middle management, has constrained Thai outward FDI. The lack of language skills and the reluctance of qualified Thai managers to work abroad have also limited Thai enterprise capacity to internationalize.
- Aside from the above home country factors, host countries' constraints have also contributed to restricting Thai outward FDI.

These include strict foreign exchange controls, restricted market access, inadequate infrastructure facilities, limit to the hiring of Thai expatriates, higher transaction costs and difficulty in finding suitable local joint venture partners. In some cases, the absence of bilateral investment agreements to protect investments contributes to insecurity and uncertainty about overseas investments by Thai enterprises. Hence, this study will examine the internationalization process that has been experienced by Thai firm.

1.4 Research Question

Research question of this study can be divided into general and specific research question.

1.4.1 General Research Question

The general research question is what is the internationalization process of CP Group; a Thai multinational how does the inter

1.4.1 Specific Research Question

With reference to the general research question, the specific research questions are as following:

1) What are the motives of Thai multinational going for international markets?

2) What is the foreign market entry strategy of Thai multinational?

3) What is foreign market selection of Thai multinational?

1.5 Objective of the Study

The objective of this study can be divided into general and specific objectives.

1.5.1 General Objective

The general objective of this study is to understand and examine the internationalization process of Thai multinational by identifying the problem and challenges of this corporation in streamlining its expansion processes.

1.5.2 Specific Objective

The specific objectives of this study are to:

1) Examine the motives of Thai multinational that went into international markets,

2) assess the foreign market entry strategy of Thai multinational, and

3) examine the foreign market selection of Thai multinational.

1.6 Scope of the Study

The focus of this study is to identify the internationalization process of Thai-based MNC, namely CP Group. This study identifies the problems and challenges of this corporation in streamlining its expansion processes including the motive of its international activities, foreign market entry strategy, and foreign market selection. In addition, this study will examine the international expansion of the firm by dividing it into two periods that is pre-and post-crisis and then focus on core business (agri-business, distribution and retailing, and telecommunication) of the firm only.

1.7 Significance of the Study

This study explains the challenges faced by Thai MNC. In addition, it examines these challenges have any significant effect to internationalization process. The analysis of the challenges and its effect on the internationalization process will provide useful information on the internationalization of MNCs from developing countries. In addition, the understanding of this analysis will influence the successfulness to adopt international expansion strategy of MNCs from developing in particular Thai multinational.

As such, the result of this study will be potentially useful for developing MNCs as a guide in implementing appropriate strategy in order to sustain internationalization process of Thai multinational.

1.8 The Study Operations

The outline of this study is as follows. The next chapter will discuss both the theoretical and empirical literature on internationalization theories, motives of internationalization, foreign market entry strategy, and foreign market selection. The methodology as well as the data that is used in this study is presented in chapter three. Chapter four discussed about the analysis and findings of this study. Finally, chapter five examined the discussions and conclusions.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section of this thesis examined the existing literatures on the research problem. This is to identify relevant information that may be relevant and useful in answering the research question. Consequently, the chapter is divided into five parts. The first part defined the definition of internationalization. The second part discussed the theories of internationalization process. The third part identified the motives of internationalization process. The fourth part discussed about foreign market entry strategy. And finally, the fifth discussed about foreign market selection.

2.2 Definition of Internationalization

From a historical perspective, internationalization of businesses and firms began with mankind's ability to travel across the seas and borders. Scholars and academics have tried to define internationalization on many occasions using many different perspectives and variables. The term 'internationalization' is ambiguous and definitions vary depending on the phenomenon they include. Penrose's

(1959) point of view on the topic focuses on the firm's core competences and opportunities in the foreign environment. Welch and Luostarinen (1988) defined internationalization as the process in which firms increase their involvements in international operations. Johanson and Vahlne (1977) agree with that. Literature, scholars defined internationalization as the process by which firms both increase their awareness of the direct and indirect influences of international transactions on their future and establish and conduct transactions with other countries. Finally, Calof and Beamish (1994, p. 116) defined internationalization as "the process of adapting firms operations (strategy, structure, resource, etc.) to international environments".

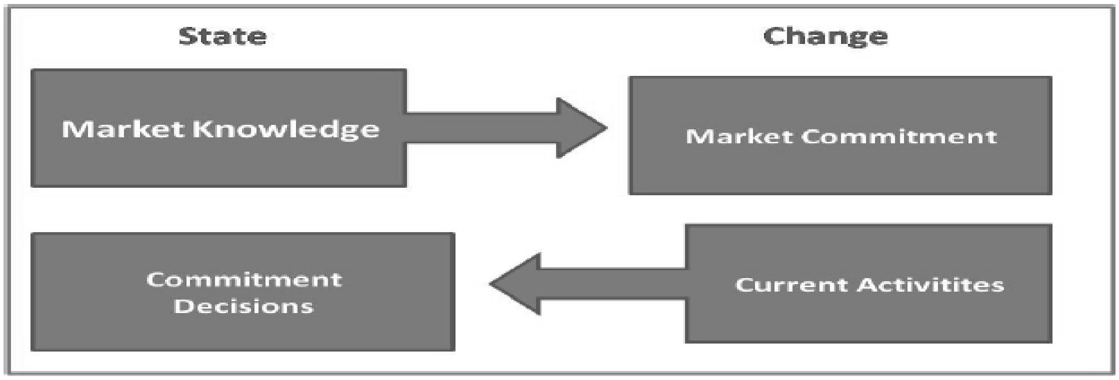
2.3 Internationalization Theories

A lot of theories approach internationalization process of the firms in different ways. Early researchers, such as Adam Smith, David Ricardo, Heckser-Ohlin and other authors introduced us to the international business world. Adam Smith discussed the absolute advantage based on the classical economic thought (Mitgwe, 2006). Adams Smith saw in the nation as being the unit of rationale for trade was simply to take the maximum advantage of an absolute advantage (Mitgwe, 2006). David Ricardo came up with his arguments that Smith was not right and proposed theory of competitive advantage (Mitgwe, 2006). Not all the theories are applicable to every case of internationalization that occurs in the business world, but they, in a way complement each other and function as different tools for us to explain and understand internationalization process of firms. Researchers have so far issued a great deal of publications related to the internationalization process of the firms of which Uppsala Internationalization Model, Network Theories and International New Venture Theories are discussed frequently.

2.3.1 Uppsala Internationalization Model

It was first developed by Johanson and Wiedersheim-Paul (1975) in their study of four Swedish firms, the Uppsala Internationalization model is also referred as: the incremental theory or the stages model. The model is based on the basic mechanism of internationalization that includes state aspects and change aspects. The state aspects encompass market commitment and market knowledge while the change aspects include commitment decisions and current activities. The two aspects interact with each other in causal cycles.

Figure 2.1: The Basic Mechanism of Internationalization

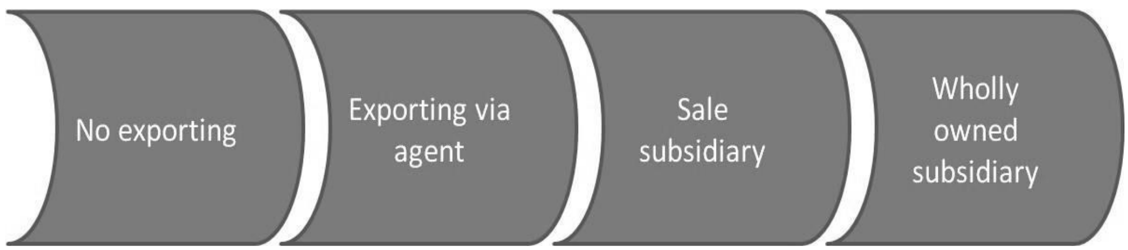


Source: Johanson and Vahlne, 1977, p. 26

Firms make commitment decisions based on the knowledge of opportunities or problems the market knowledge they are aware of from that market. Current activities are the prime source for firms to gain market knowledge as they provide firms with experiential knowledge the critical kind of knowledge, which must be gained successively during the operations in the country (Johanson and Vahlne 1977, p. 28). When firms have better knowledge about the markets, they will make stronger commitments to those markets. The internationalization process of firms under the Uppsala model evolves in interplay between the development of knowledge about foreign market and operations on one hand and an increasing commitment of resources to foreign markets on the other (Johanson and Vahlne 1990, p. 11).

The internationalization process model can explain two patterns in the internationalization of the firm. One is that the firm's engagement in the specific country market develops according to an establishment chain, i.e. at the start no regular export activities are performed in the market, then export takes place via independent representatives, later through a sales subsidiaries and eventually manufacturing may follow (Johanson and Wiedersheim-Paul, 1975, cited in Johanson and Vahlne 1990, p.13).

Figure 2.2: Uppsala model process, adaptation from the theory



Following the above establishment chain pattern, firms increase their involvements in foreign markets gradually. They initiate their operations in foreign countries with an entry mode which requires low resource commitments (e.g. exporting) and then gradually step up with entry modes requiring higher resource commitments (e.g. establishment of sales subsidiaries or wholly owned subsidiaries). However, in the later research, Johanson and Vahlne (1990) showed that there were three exceptional cases for this stepwise internationalization of firms (Johanson and Vahlne 1990, p. 12):

1) When firms have large resources, the consequences of commitments are smalls. Thus, big firms or firms with surplus resources can be expected to make larger internationalization steps.
2) When market conditions are stable and homogeneous, relevant market knowledge can be gained in ways other than through experience.
3) When the firm has considerable experience from markets with similar conditions, it may be possible to generalize this experience to the specific market. (ibid)

The second pattern is that firms enter new markets with successively greater psychic distance (Johanson & Vahlne 1990, p. 13). Psychic distance is defined in terms of factors such as differences in language, culture, political systems, etc., which disturb the flow of information between the firm and the market (Vahlne and Wiedersheim-Paul, cited in Johanson and Vahlne 1977, p.13). Under this theme, firms enter to neighboring markets with similar cultural and geographical conditions to the home countries first and then gradually expand to host countries with greater cultural and geographical differences.

Though the Uppsala model is the most popular theory on internationalization, which explains clearly the choices of market to enter and the entry modes, this model has been criticized as too deterministic. If firms were developed in accordance with this model, individuals would have no strategic choices (Andersson 2000, p. 66). Nevertheless, this theory still values to be a conceptual background of studying internationalization behaviors of firms.

2.3.2 Network Theory

Uppsala-model has been challenged by network theorists in recent years, whose fundamental argument is that modern high-technology firms do not exhibit the incremental process; rather they achieve a faster internationalization through the experience and resources of network partners (Mitgwe, 2006). All firms in a market are considered to be embedded in one or more networks via linkages to their suppliers, subcontractors, customers and other market actors (Johanson & Mattsson, 1988).

According to Emerson (1981) a network is a set of two or more connected business relationships, in which each exchange relation is between business firms that are conceptualized as collective actors. Network theorists see firm's internationalization as a natural development from network relationships with foreign individuals and firms (Johansson & Mattson, 1988). Networking is seen as a source of market information and knowledge, which are often acquire in longer terms when there are no relationships with the host country. Therefore, networks are a bridging mechanism that allow for rapid internationalization (Mitgwe, 2006). The emphasis of the network approach is in bringing the involved parties closer by using the information that the firm acquires by establishing close relationships with customers, suppliers, the industry, distributors, regulatory and public agencies as well as other market actors. Relationships are based on mutual trust, knowledge and commitment towards each other.

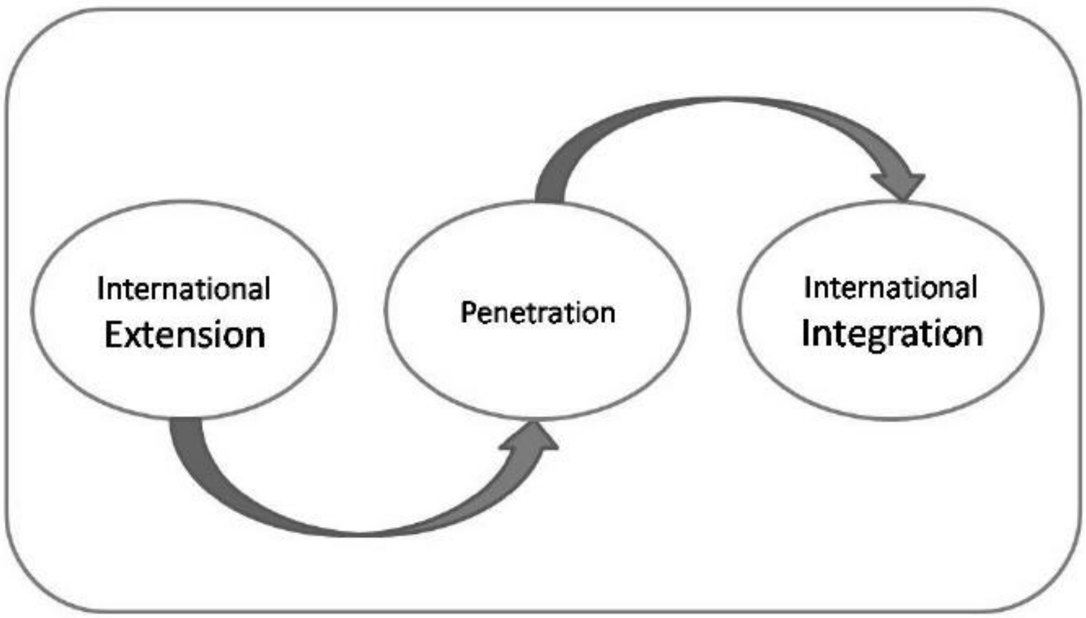
Firms establish and develop position in the market in relation to other actors in a foreign network (Johanson & Mattsson, 1988). Firms, while going abroad are engaged in a domestic network with the main goal to develop business relationship in a foreign country. Firm's position in the local network determines its process of internationalization since that position determines their ability to mobilize their resources within the network. All firms in the market are related in a way to other actors, whether they are local or international. As actions take place on the firms interacting in the network, their activities should be coordinated in order to get a better profit from those relations. In such a way a firm can have better understanding with a supplier, or with other companies. Coordination in the market comes from the interaction of the firms involved in the network, where price is only one of the many factors influencing decision (Lindblom, 1959).

The ties resulted from the firm's network, are hard to imitate. These ties have consequences in three dimensions: a) the information is available to the parties involved in the relationship; b) timing, and c) referrals (Burt, 1997). Firms learn from the ties made in the network, information about what is going on in the market is open to the network itself. Thus, there is information that is not available for everyone. Ties also influence on timing when some information reaches a particular firm. And referrals firms get interested on other firms, in the right time and place. Ties may be strong or weak. Granovetter (1973, p.1361) defines the strength of ties as a combination of time, emotional intensity, intimacy and the reciprocal services of the ties. They are weak when they are low, the relationships are distant. When there is a tight interaction the ties are strong, parties involved enjoy autonomy and easily adapt to each other. No tie is static. As time passes by firms can make the ties become stronger or weaker depending on the relation between them.

2.3.3 Johanson and Mattsson's (1988) Network Approach

The first step a firm must follow in order to internationalize is the understanding of the market where it operates, its environmental conditions and the firm's relationships (Madsen & Servais, 1997). Johanson and Mattsson (1988) argue that as firms internationalize, the number and strength of relationships brought up in the network increases, helping their international extension. By using trust and increasing commitment in established foreign networks, the firm gains penetration. After having some penetration, firms can gain international integration by using the network and getting involved with other firms in various countries (figure 2.3).

Figure 2.3: Network approach to internationalization, based on Johanson and Mattsson (1988).



When the firm follows these activities, relationships are formed, gaining access to the market and its resources. Resources in the network are controlled by the firms itself, as well as other actors involved. A firm requires resources that are controlled by other firms, which can be obtained depending on their position in the network (Johanson & Mattsson, 1988). Johanson and Mattsson (1988, p. 212) have identified four categories of firms: the early starter, the lonely international, the late starter and the international among others.

The early starter is the firm that has only few relationships in the foreign market. They tend to have little knowledge about foreign market and have little chance to acquire it in their home base country. In order to have knowledge, this kind of firms makes use of agents to enter the foreign market. By using the agent's experience, the firm will obtain knowledge.

In the lonely international category are the firms that are highly internationalized but in a market environment with a domestic focus. They have the capabilities to promote internationalization of the market. This firm has acquired prior knowledge and experience in a foreign market, so it has what it takes to succeed.

Later starters are in a market that is already internationalized. The firm has indirect relationship with the network. By making use of those relationships the firm is able to internationalize. They have the disadvantage over the competitors, since they have more knowledge. For the later starters is hard to get a place in the existing network. International among others focuses on a highly internationalized firm, where both market and the firm are highly internationalized. Since they posses knowledge and experience it's easier for this firms to set sales subsidiaries, as it needs to coordinate activities in different markets. They are well connected to international networks that provide opportunities.

2.3.4 Dunning (1976): Eclectic (OLI) Paradigm of International Production

Dunning first presented the concept of the eclectic paradigm of international production in his study, Trade, Location of Economic Activity, and the MNE: A Search for an Eclectic Approach, at Nobel Symposium in Stockholm in 1976. (Dunning, 1976) Later on, Dunning consistently supplemented, developed and improved his eclectic paradigm of international production according to some constructive criticisms and development of international economic environment. The core of eclectic paradigm is composed of “three advantages”. They are Ownership specific advantages, Location specific advantages and Internalization advantages (OLI). So the eclectic paradigm is also called OLI paradigm. A firm will become a MNE and engage in the international value-adding activities, the following three conditions need to be satisfied.

The first condition is that the firm must possess certain comparative advantages, which are specific to the nature of their ownership over the local competitors. It means that the firm, as an international player, must have some ownership advantages to cover the cost of international production or outweigh the disadvantages of doing business abroad. The second condition is that the international firm can make use of internalization advantages to further exploit its competitive advantages over local firms in the foreign market. The third condition is that firm need to use some specific resources in the foreign country in combination with the ownership and internalization advantages.

It implies the location advantages can bring profit from production in the foreign country rather than simply production at home and exporting to the foreign market. As long as firms contemporarily possess all the three OLI advantages, they can engage in FDI activities. If the firms have the ownership and internalization advantages, but lack of location advantages they will choose domestic production and exporting overseas. If the firms only possess the ownership advantages, they can't transfer the comparative advantage within their organizations. The firms have to sell this competitive advantage (transfer the intangible asset) in the external market and choose licensing. Comparing with other single thoughts, Dunning's eclectic paradigm can successfully explains why MNEs choose FDI rather than exporting and licensing (See Table 2.1).

Table 2.1: Choice of FDI, Export and License

Choice of FDI, Export and License			
	Ownership advantage	Internalization advantage	Location advantage
FDI	Yes	Yes	Yes
Export	Yes	Yes	No
License	Yes	No	No

Source: Dunning, 1981

2.3.4.1 Ownership Specific Advantages

Dunning developed Hymer's (1960) monopolistic advantage theory as his ownership advantages sub-paradigm. Dunning (1988) explained that the ownership specific advantages, also called competitive or monopolistic advantages, "*must be sufficient to compensate for the costs of setting up and operating a foreign value-adding operation in addition to those faced by indigenous producers or potential producers*". In the early paper of eclectic paradigm, Dunning (1976) identified three kinds of ownership specific advantages. First advantages arise from exclusive privileged possession of or access to particular income generating assets. Second advantages are enjoyed by a branch plant compared with new firm and third ones are the consequence of geographical diversification or multinationality. Later, Dunning (1988) distinguished the ownership advantages into ownership asset (Oa) advantages and ownership transaction (Ot) advantages. The ownership asset (Oa) advantages refer to proprietary ownership of specific asset, such as property rights or intangible assets including product innovations, technology, reputation, trademark, management expertise and etc. In the concept of ownership transaction (Ot) advantages, Dunning stressed the role and function of this type of ownership advantages. Ownership transaction (Ot) advantages derived from ability of firm to capture the transactional benefits or lessen the transactional cost during international production. For example, firm size (the economies of scale), product diversity and learning experiences, access to resources, synergistic economies (purchasing, marketing, finance), and etc (Dunning, 1993). Most of successful MNEs share the same characters of nurturing and exploiting both Oa and Ot advantages (Dunning, 1988).

Ownership specific advantages or the firm-specific advantages have various possible forms in different type of enterprises. Many evidences show that a great proportion of multinational enterprises' international productions are concentrated on R&D, marketing expenditures, scientific and technical workers, product innovations and differentiation. It implies that the firm-specific advantages on the knowledge asset are more likely to give rise to direct foreign investment than other type assets, such as physical asset. There are two reasons. First, the knowledge asset is easily transferred across space at low cost. Second, knowledge has joint character and it can also be supplied to additional production facilities at very low cost (Markusen, 1995). Usually, technology-intensive firms are much more likely to possess their specific advantages in knowledge assets, which include patents or exclusive technical knowledge, know-how, R&D capabilities, human capital, trademark, reputation and etc., than other type of enterprise such as labor intensive firms.

2.3.4.2 Location Specific Advantages

As a MNE, the firm has to make decision on selecting in which country to undertake FDI or international production. Dunning's (1988) location specific advantages sub-paradigm indicates that a firm will engage in foreign production whenever it perceives it can combine *spatially transferable* intermediate goods from the home country with immobile factor endowments or other intermediate goods in another country. Firstly, MNEs must possess the comparative advantages (the ownership specific advantages) over the firms in foreign market. Secondly, MNEs will consider whether the factor endowments (location specific advantages) in host country are attractive enough and worthwhile for them to invest in this country. This is critical point for them to decide to choose exporting or FDI. On one hand, it's possible to be more profitable to export from the home country. For example, the home country has comparative advantages coming from the availability and low cost of the most important resources needed in producing the product. On the other hand, foreign production in an affiliate established by direct investment may be more profitable. For instance, the foreign country has high tariffs on imports of product. Finally, under the pretext of ensuring profitability, MNEs will transfer their firm specific advantages to the host country and combine with the location specific advantages to minimize the disadvantages of international production.

Generally location specific advantages refer to the advantages possessed by host country. MNEs could make use of these advantages, which can be divided into four groups:

1) Natural resources advantages. For example, spatial distribution of natural and created resource endowments (include energy, raw material and geographical location and etc.).
2) Economic environment advantages. Such as, input price, quality and productivity (include cheap or well trained labor, advanced technology, semi finished goods and etc.); international transport and communication cost; economies of centralization of R&D production and marketing (include R & D facilities and experts, size of market and so on.); investment and trade environment (include trade barrier, tariff, quotas)
3) Cultural and social advantages. For instance, psychic distance between the home and host country (include cross-country ideological, language, cultural differences, general attitude towards foreigners and so on); societal and infrastructure provisions (include education, well-established infrastructures and etc.).
4) Political power and legal environment. For example, political stability and sustainable economy, improved legal and institutional environment, FDI preferential policies and regulations and etc. (Dunning, 1993)

An attractive location advantage package for MNEs might include low international production costs, a large, growing and high income market, abundant factor endowments which scarce in the home country, a stable political environment and sustainable economy in host country with FDI preferential policy, and which is also culturally and ideologically close to the home country. The factor endowments in host country are the key reasons for MNEs to make decision on location choice of FDI as well as their strategic arrangement of the international production.

2.3.4.3 Internalization Advantages

Internalization advantage sub-paradigm is based on Buckley and Casson's (1976) internalization theory, which is probably the most abstract concept in this eclectic paradigm. Internalization advantages refer to MNEs' ability to efficiently internalize their ownership specific advantages to reduce the transaction cost during the international production. The MNEs prefer to transfer their privileged firm-specific advantages across national boundaries within their own organizations rather than sell them (Dunning, 1988), because the international firms could establish an internal market within their administrative fiat to avoid high and uncertain transaction cost caused by market failure (also called market imperfection).

Dunning (1988) summarized three kinds of market failure as follows: 1) those that arise from risk and uncertainty of transaction cost. For example, uncertainty of futures markets, risk of broken contracts and etc. 2) those that stem from the ability of firms to exploit the economies of large-scale production. It means this kind of market failure due to MNEs' oligopolistic behavior of expanding economies of scale and exploiting markets; and 3) those that occur where the transaction of a particular good, like intermediate good (knowledge and service).

It is difficult for either the owner or the potential buyer to assess the value of intermediate good or intangible asset, such as knowledge. The nature of this particular good will bring the opportunism and uncertainty, which cause price distortion and market failure. Therefore, internalization advantages are much more important for high-technology enterprises, whose comparative advantages mainly concentrate on knowledge-based asset. Dunning and Rugman (1985) also classified market imperfection into structural and transactional market imperfection to explain different types of ownership advantages possessed by the MNEs, which can also be deployed to explain the motives of internalization. Structural market imperfection is possibly caused by monopoly power's behavior (such as distorting the price and external markets and establishing trade barriers) and government intervention (include tariffs, taxes, price control etc.) in host country. Transactional market imperfection is resulted from informational asymmetry or lack information during the transaction of intangible asset. The greater the perceived costs of transaction market failure, the more MNEs are likely to exploit their competitive advantages through international production rather than trade with foreign firms (Dunning, 1988). In fact, the concept transaction cost caused by market failure is essential part of the internalization theory.

Internalization advantages also arise from enterprises' capability of reducing transaction cost. For instance, to avoid search and negotiating costs; to avoid costs of moral hazard, information asymmetries and protect the reputation; to avoid cost of broken contracts and ensuing litigation; to control the quality of intermediate or final products; to avoid or exploit government intervention including quotas, tariffs, price controls, tax differences, etc. (Dunning, 1993)

2.3.5 Theory of International New Ventures

In the 1990s, there increasingly appeared firms which rapidly internationalized. The appearance of their internationalization processes across the globe challenged the long existence of the Uppsala model with the gradually step-by-step international expansion. A new theory called Theory of International new ventures was developed by Oviatt and McDougall (1994) to explain the development of this phenomenon. The international new ventures, which are mentioned in several researches with various names such as Born Globals, Global Start-ups. International New Ventures are defined as:

A business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries

There are three driving forces for the emergence of international new ventures in many industries in various countries, such as: technological developments in the areas of production, transportation and communication, new market conditions and more elaborate capabilities of people, especially the founder/entrepreneur who starts the international new ventures. The driving forces include both subjective and objective elements in which entrepreneurs with their unique characteristics are highlighted. Compared to multinational corporations, international new ventures lack resources for successful internationalizations but these are offset by their founders or entrepreneurs with their good background educations, deep experiences from their previous jobs and broad relationships. For the successful internationalizations from formations, international new ventures need four necessary and sufficient elements i.e. internationalization of some transactions, alternative governance structures, foreign location advantage and unique resources (Oviatt and McDougall 1994, pp. 52-57).

2.4 Motives of Internationalization

Dunning (1993) introduced a model of internationalization motives including four different categories of motives. These categories are market seeking, resource seeking, efficiency seeking and strategic resource seeking motives. Then added a fifth category: *network seeking motives* for recognizing networks as a significant part of internationalization corresponding to recent research.

Dunning (2000) explains how market and resource seeking motives have been the two most recognized categories of motives before. These two categories still correspond to most first time internationalizations by firms. Overall, efficiency seeking and strategic asset seeking motives increase in significance and are more common as motives for companies already engaged in multinational activity. He also shows that closer relations with customers and durable relations with suppliers were important motives. Furthermore, he suggests that internationalization was more driven by opportunities rather than threats. Karagozoglu and Lindell (1998) show that opportunities in foreign markets and inquiries from foreign buyers were the top two motives for internationalization. Insufficient domestic sales compared to R&D costs were also a significant motive.

2.4.1 Market Seekers

This category of motives focuses on demand aspects. If decision makers within a company acknowledge the importance of accessing specific target markets abroad and believe that a direct presence internationally is essential for this access they will focus on market seeking motives. Companies that invest in a particular country or region with the intention to supply goods and services are called market seekers. According to Dunning (1993) there are several reasons why companies undertake such action.

Firms sometimes conduct investments on foreign markets to promote or exploit new markets. Reasons may include the sheer size of the market or an expected growth of the same, indicating that the company may enter and then generate profit. Products and services may have to be adapted to tastes, needs and trends on a particular market. A direct presence on a local market may be necessary, as companies that are not close to markets may have a disadvantage in adapting services and goods.

Companies may act as a part of a global production and marketing strategy and seek a physical presence on leading markets where the competitors are. Companies may follow their competitors, or more aggressively advance in expanding markets by investing there. Foreign governments can also encourage investments from companies in other countries. Incentives such as subsidized labor and trade barriers may tempt companies to invest in these countries. Much of government export promotion policies focus on encouraging entrepreneurs to internationalize using business education and training (Harris & Wheeler 2005). This fosters direct trade links in other countries, and financial incentives. Sometimes a firms' home market is limited, i.e. by not bringing the firm enough revenues. Such limitations can be a saturated market, a too competitive market, not enough customers, and so on. Many companies there go to other markets, including foreign markets.

The above situations and motives are part of the category of market seeking motives by Dunning (1993). In this category he also includes the issue of following main suppliers or clients abroad in order to retain business. The main clientele may establish themselves in foreign countries, and following them is essential for the focal firm.

2.4.2 Resource Seekers

The resource seeking companies are those investing abroad in order to obtain resources (Dunning, 1993). Perhaps the wanted resource can be acquired at a lower comparative cost, or simply does not exist at all in the home country.

Resource seeking could deal with the search for physical resources, such as minerals (oil, zinc, copper etc.) and agricultural products (rubber, tobacco, sugar etc.). These resources are sometimes central to the survival of a company, especially if the material constitutes an important part of the production.

The search for cheap and unskilled (or semi-skilled) labor is an important activity for many companies trying to minimize costs and maximize profits. This labor force should be well motivated and exist in large numbers. The seeking for such labor is often undertaken by manufacturing companies with high real labor costs. Sometimes skills and capabilities are resources that can be used through collaboration with a business partner. According to Dunning's model (1993) this corresponds to resource seeking.

2.4.3 Efficiency Seekers

Another category of motives focuses on efficiency (Dunning, 1993). The purpose is to rationalize structures of established investments in order to gain from common governance. Often those benefits come from economies of scale and scope, but also risk diversification. Therefore, efficiency seeking is seen as gaining from the differences of factor endowments, cultures, institutional arrangements, and economic systems etc. Often this implies concentration of production in a limited number of places. Companies that are seeking efficiency are often experienced, large and diversified multinational enterprises.

Advantage can be drawn from differences of factor endowments in different countries. Such differences consist of availability and cost. As an example, value-adding activities that are capital, technological or informational intensive are usually placed in developed countries. On the other hand, value-adding activities that are labor or resource intensive are often placed in developing countries.

Economies of scale and scope are issues that an efficiency seeker often focuses on. While differences of factor endowments utilize differences between developed and developing countries, economies of scale and scope regards differences within similar countries. The differences may be that of consumer tastes and supply capabilities. Companies may become international with the intention to lower the total amount of tax paid to governments. By acting in several countries the efficiency seeker might be able to lower the tax burden. Exactly how this is done is not of interest to this study. However, we believed this was a motive well worth investigating.

2.4.4 Strategic Resource Seekers

Strategic resources are intangible resources dealing with the technology and core competence of the company (Dunning, 1993). Patents, knowledge, the skills of the employees, and strategic supplies necessary for developing comparative advantages are examples of strategic resources. By focusing on developing strategic resources the company supports its long term strategic objectives. This is often done by acquiring the assets of foreign corporations. Accordingly, the main motive is therefore to either sustain or strengthen the competitive position, or weaken the competitors.

In order for knowledge to have commercial value a company must prevent competitors from accessing such information (Oviatt and Mcdougall, 2005). Secrecy is often the best way of protecting knowledge that has commercial value.

Knowledge based firms therefore protect themselves by the use of patents, copyrights, and so on. For companies, one way of gaining access to knowledge is to acquire other firms. Another way is to participate in some form of alliance in order to benefit from other companies knowledge base. We consider the latter of these two activities to reflect network seeking.

2.4.5 Network Seekers

Networks, relations and collaborations with partners outside the organization can be very important for companies. By assessing the network seeking motives, companies intend to nurse, develop and expand their existing networks. Examples of network relations are personal connections, supplier-customer relations, contractual cooperation or other types of relations based on mutual gain and trust.

Chen et al. (2004) mention how scholars have recently brought our attention to relational capital and its importance. The relations between a firm and its customers, suppliers, partners, government agencies and research institutions can be included in the term relational capital which represents goodwill and trust. Investing in relational capital and local linkages enables the firm to create a competitive advantage.

The relation can be beneficial for several parts of a network. A business network refers to a set of interdependent business relationships. One can argue that all firms are a part of a network. Relationships within a network can be short or long lived as well as being operated at arm's length or up close and personal to facilitate knowledge sharing, innovation and value creation. An investor can decide to invest in local linkages depending on prior position and experience.

Sometimes the strategic goals of a company cannot be fulfilled using the existing network (Chen & Huang, 2004). In such cases the company can develop and expand the network to include new partners internationally. This process may differ a lot depending on the nature of the local network and the size of the entering firm.

Chen et al. (2004) explain two basic principles for network actors to invest in new relationships. One principle is efficiency, describing how a firm should only engage in creating new network contact if the connections are not within reach of the already existing network. According to this principle the diversity of the firm's network is more important than the size of the network. A big network is also more costly to maintain. Investment in new network relations is legitimate if it leads to a more diversified network and more opportunities, information or resources not covered by the domestic network.

Effectiveness is the second network investment principle (Chen et al., 2004). The effectiveness principle deals with how a network actor can focus on preserving and enriching the primary existing network relationships. Primary relationships are essential for the profitability of the focal firm and are more important than secondary relationships that can only be focused upon after dealing with the primary ones. Over time the division of what relations are primary and secondary can change.

According to Harris and Wheeler (2005) the best foundations on which to build an international strategy are such strong inter-personal relationships. These can provide and help to develop knowledge, understanding, visions, and plans for the internationalization of the firms. Further, through cooperative arrangements, these relationships can provide the means and mechanisms by which these plans may be realized.

Lavie (2006) emphasises how resources can be shared through alliances and networks. Lavie explains how creating a competitive advantage using the network requires the development of external links. The joint resources can accomplish a synergy which means a total that is worth more than the parts individually.

Five groups of motives or drivers have been presented in the above sections. The first four are based from Dunning (1993) while the motives fifth are added by us. Although all these motives have reflected significant important in the internationalization process, because some of these motives may not reason to be significant with referee to our context. The motives we believe will not show up as important are *efficiency seeking* and *strategic resource seeking* motives. Efficiency seeking is mainly conducted by larger and already internationalized firms, and therefore we do not expect smaller companies to recognize this as important. Strategic resource seeking probably requires financial assets to acquire whole or parts of firms, and smaller companies may lack those funds.

2.5 Drivers and motivations of Thai Multinational Corporation

The motives driving outward FDI by Thai enterprises are a combination of inter-related reasons (table 7). They vary between firms, depending on the industry they operate in (e.g. textiles vs. restaurant business; manufacturing vs. resource base), the years of experience in internationalization (experienced internationalized firms have a higher tendency to locate further and to diversify their outward FDI activities than newer ones), the extent of overseas business networks (business contacts and networks facilitate outward expansion) and the purpose of outward FDI.

The desire to grow, expand markets and support trade and distribution channels were and still are the main drivers of Thai outward FDI. Hence, for both early and present Thai outward FDI, the market-seeking motive is significant. For instance, A&J Beauty Products Co. Ltd expanded overseas, through joint-venture arrangements, to market its cosmetics and hair-care products in the United States and France; (Bangkok Post, 10 April 2004) Siam Cement invested in the ASEAN region to strengthen its market presence and to be more effective in servicing the emerging markets in the region. Outward FDI by firms such as Amata, Loxley, S&P, Siam Cement, Saha Union and Thai Union was also driven by market-seeking motives (See appendix 1). Efficiency seeking outward FDI is a relatively recent development and has been due to the increasing cost of operating in Thailand in some industries (e.g. textiles, jewelry). The Thai firm, Pranda Jewelry, for instance, invested in China, Indonesia and Vietnam, partly because of rising costs. However, cost in itself is not the major reason for Thai outward FDI.

In general, Thai firms invest abroad to increase competitiveness through extending their market reach, exploiting/strengthening their brand (S&P, Siam Cement) and ownership advantages such as business experience, skills or technological know-how (Amata, Thai President Foods, Pranda Jewelry); to take advantage of emerging investment opportunities in host countries (Saha Union); and to relocate to a low-cost country. (Brimble and Atchaka, 2005) Labor-intensive production (e.g. garments) is gradually being relocated to countries with abundant low-cost labor, such as Cambodia and Lao PDR (Ministry of Foreign Affairs of Thailand and the United Nations Country Team in Thailand 2005, p. 40). For instance, Saha Union’s investment in textiles manufacturing in China was motivated by the cost factor as was Pranda Jewelry's investment in neighboring countries. (Saha Union Public Company Limited Annual Report 2005)

Resource-seeking FDI by Thai firms is still limited and dominated by large industrial conglomerates (e.g. Siam Cement, Saha Union) and government linked companies (e.g. PTT). Thai outward FDI in the primary sector is much smaller compared with the manufacturing and services sectors (table 3). Banpu and other Thai companies have invested in mining in Lao PDR. Saha Union has invested in China, and a few other countries in Asia, for the sourcing of supplies (including electricity generation). Siam Cement has invested in Iran and ASEAN countries to secure low-cost raw materials. PTT, a leading oil and gas company, invested abroad to secure access to natural resources and markets as well as to strengthen its distribution channels.

Other drivers of Thai outward FDI include newly emerging investment opportunities in certain host countries, particularly in speculative investment in real estate and industrial estates development (Pavida, 2004). For instance, the cumulative experience of the leading industrial estate developer Amata at home, and the emerging opportunities and industrial growth prospects in Vietnam, contributed to the company's decision to invest in that country. (http://www.amata.com/corporate/background.aspx) Business networks and contacts in host countries (e.g. in the cases of Saha Union and the agro industrial conglomerate CP) and the vision of top management to strengthen their market positions (e.g. in the cases of Thai Union, Bangkok Bank, CP, Siam Cement) were also the driving factors of Thai investment overseas. S&P's investment overseas is an example of Thai enterprises investing abroad to build brand awareness.

Government encouragement of Thai firms to invest abroad, for instance through the provision of financial facilities, certainly influenced the internationalization of Thai enterprises. Regional integration in ASEAN and the desire of some Thai firms to raise their regional profiles also contributed to recent development in Thai outward FDI.

Another reason that has encouraged Thai outward FDI to neighboring countries, such as Cambodia, Lao PDR and Vietnam, is related to the impact of Thai Overseas Development Assistance on the improvement of infrastructure in these countries, which created new investment opportunities (Ministry of Foreign Affairs of Thailand and the United Nations Country Team in Thailand 2005, p. 38; table 2.2).

Table 2.2: Thailand: ODA qualified loans in 2002/2003

(Millions of dollars)

Ministry/Agency	**Amount/Country**
Ministry of Finance	$48.8 million for GMS countries [a]
Export-Import Bank of Thailand	$60.0 million for Lao PDR
Export-Import Bank of Thailand	$30.0 million for Maldives
Export-Import Bank of Thailand	$8.4 million for Cambodia

[a] GMS refers to the Greater Mekong Sub-region comprising Cambodia, Lao PDR, Myanmar, Viet Nam, Thailand and Yunnan Province of China

Source: Ministry of Foreign Affairs of Thailand and the United Nations Country Team in Thailand, 2005.

While the market-seeking motive accounts for a large part of Thai outward FDI for all industries, there are some distinctive sectoral differences. The need to access natural resources and to better control value chains are more closely associated with outward FDI in mining, including the oil and gas industries. In services, exploiting ownership advantages such as brand, business experience and business networks appear to be a more important reason. Speculative factors such as investment opportunities and the growth potential of the host country have also influenced investment decisions. In the manufacturing sector, a wide range of reasons motivate outward FDI. They include the sourcing of raw materials, exploiting ownership advantages, strengthening distribution channels, lowering costs and realizing the owners' vision. Regional factors, including economic integration and geographical proximity and cultural affinity, have influenced the location decision of Thai overseas investment in all three sectors.

2.6 Foreign Market Selection

Identifying the right markets for a company's internationalization is crucial for many reasons. It can be a key determinant for success or failure, especially in the early stages of internationalization; the decision influences the foreign marketing programmed in the international market; and the nature of the selected market shape the company's capability to coordinate foreign operations (Hollensen, 2004, page 218).

Czinkota and Ronkainen (2001, page 272) and Hollensen (2004, page 37-42) state that the market selection in some cases is a reaction to a motivation provided by a *change agent*. Hollensen (2004, page 37-42) explains this change agent as something within or outside the company that triggers the internationalization to take place. In such cases the company acts in response to an opportunity in a given market. Internal change agents often occur as new management, or a major internal event, while external often are governmental, market demand, competition or trade relations (Czinkota & Ronkainen, 2001, page 272).

In other cases (than the change agent) it is easier for companies to enter markets they can easily understand and therefore the market selection is often based on the following three diverse criteria (Hollensen, 2004, page 219):

- *Low psychic distance*
- *Low cultural distance*
- *Low geographical distance*

Psychic distance can be defined as “factors preventing or disturbing the flows of information between firms and markets in terms of differences in language, culture, political systems, level of education, levels of industrial development, etc” (Johanson & Wiedersheim-Paul, in Buckley & Ghauri, 1999, page 28). It is often easy to gain information about the country and the uncertainty about the market is low; due to this firms tend to enter psychically close markets first (Hollensen, 2004, page 219). Low geographical distance signifies countries and markets located near the domestic market in physical distance (Hollensen, 2004, page 219).

2.7 Foreign Market Entry Strategy

Major entry modes include exporting, licensing/franchising, joint ventures, and full ownership. Exporting involves a company selling its physical products which are manufactured outside the target country to the target country (Tallman and Shenkar, 1994). Licensing and franchising arrangements are nonequity associations between an international company and a party in the host country in which technology or management systems are transferred to the host party (Shane, 1.994). A joint venture is an arrangement whereby the firm is required to share equity and control of the venture with a partner from the host country. An additional entry alternative is full ownership of facilities in the host country, whereby the parent company takes a 100 percent equity stake in the operation in the foreign country. Full ownership can involve either acquiring an existing business or investing in new facilities in the host country (Root, 1994).

In weighing foreign market entry alternatives, a central consideration is the level of control the firm will have over the operation. Control has been defined as, “the ability to influence systems, methods, and decisions” (Anderson and Gatignon, 1986). In general, when a firm moves from licensing/franchising to joint venture to wholly-owned subsidiary (WOS), the firm's investment and the degree of control that the firm has over the operations increase (Agarwal and Ramaswami,1992; Hennart,1989; Root, 1994).

While exporting is generally viewed as a low commitment form of market entry, it is not as easily classified on this continuum. As has been noted in prior studies, there can be a wide spectrum of commitments and control of the exporting firms, since some exporting arrangements (i.e. indirect exporting) simply involve selling to an intermediary such as an export trading company, while other arrangements involve forging relationships with distributors. For this reason, past theories of modal choice have not been designed to predict the choice between exporting and the other three alternatives (e.g. Kim and Hwang, 1992; Erramilli and Rao, 1993). An additional factor that makes it difficult to compare exporting cases to other modes of entry is that exporting involves production in the home country, while the other modes involve production in the host country. When a MNC approaches a host government about entering into a licensing, joint venture, or full ownership mode of entry, the firm is acknowledging that it believes there are advantages associated with host country production that would not be afforded by exporting (Erramilli and Rao, 1993). The main issue from a bargaining power perspective (the theory being tested in this study) becomes the level of control the MNC will have over the venture. Exporting, however, does not involve host country production and hence, does not involve bargaining with the government (at least not in the same context as the other three types of arrangements). Thus, it is not appropriate to compare exporting cases to licensing, joint venture, and WOS cases. For this reason, exporting cases are not included in our analysis.

In the entry mode literature, there is a consensus that two major theoretical perspectives have emerged as viable frameworks for examining MNCs' entry mode choice (Gomes-Casseres, 1990; Tallman and Shenkar, 1994). The first framework, transaction cost analysis (TCA), has been used in several empirical studies of Western MNCs' entry mode choice (e.g. Davidson and McFeteridge, 1985; Anderson and Gatignon, 1986; Anderson and Coughlin, 1987; Erramilli, 1991; Erramilli and Rao, 1993). TCA theory posits that a company will internalize operations that it can perform at a lower transaction cost than would be the case if the firm exported or entered into a contractual arrangement with a local partner. The second framework, bargaining power (BP) theory, views entry mode choice as an outcome of negotiations between the firm and the government of the host country. While the BP framework is well developed from a theoretical standpoint, it has not been tested as extensively as TCA in the entry mode choice context, though there are a few notable exceptions (e.g. Lecraw, 1984, Gomes-Casseres, 1990).

While TCA has been the most widely used theory in prior studies of entry modes, some issues pertaining to its applicability to non-Western contexts have been raised. Indeed, several scholars have questioned the appropriateness of applying transaction cost analysis to East Asian cultures because of its focus on institutional structures and their impact on transaction costs. North (1981) and Granovetter (1979), for example,assert that the way in which institutions are structured in a country can have an impact on the transaction costs associated with partnering

Additionally, bargaining .power assumes that the MNC uses its ownership advantage as a source of bargaining power, while the host government relies on its control over marketing access. (Kumar and Subramaniam, 1997)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology used in this study, with some explanations of the common methodological approaches that are useful when conducting the study. In each section presented, the choices for this thesis are discussed and justified.

3.2 Research Methods

Methodology is a strategy or a plan for achieving some goal and provides the blueprints that prescribe how the tools should be used (Potter, 1996). There are two ways to conduct the research, qualitative and quantitative method. This study gathering information can choose whether qualitative method. The choice of method depends on the problem definition, but also on what kind of information that is needed (Holme & Solvang, 1991 in Jennie & Zetterwall).

3.2.1 Qualitative or Quantitative Methods

According to Saunders et al. (2007, p. 145), the terms quantitative and qualitative are used widely in business and management researches to differentiate both data collection techniques and data analysis procedures. Quantitative is predominantly used as a synonym for any data collection technique (such as questionnaire) or data analysis procedure (such as graphs or statistics) that generates or uses numerical data. In contrast, qualitative is used predominantly as a synonym for any data collection technique (such as interview) or data analysis procedure (such as categorizing data) that generates or uses non-numerical data. The differences between two methods were showed by Ghauri and Gronhaug (2005, p. 110) as Table 3.1 below:

Table 3.1: Differences between qualitative and quantitative methods

Qualitative Method	Quantitative Method
Emphasis on understanding	Emphasis on testing and verification
Focus on understanding from Respondent's/informant's point of view	Focus on facts and/or reasons for social events
Interpretation and rational approach	Logical and critical approach
Observations and measurements in natural settings	Controlled measurement
Subjective "insider view" and closeness to data	Objective "outsider view" distant from data
Process oriented	Result oriented

Explorative orientation	Hypothetical-deductive; focus on hypothesis testing
Holistic perspective	Particularistic and analytical
Generalization by comparison of Properties and contexts of individual	Generalization by population membership

Source: Ghauri and Gronhaug 2005, p. 110

Also mentioned by Ghauri and Gronhaug (2005, p. 112), qualitative research provides a better understanding of a given context and underlying motivations, values and attitudes. Based on these distinctions, this study applied the qualitative approach and it aims to gain a deep understanding about the internationalization process of the CP Group by interpreting secondary data, mainly process oriented rather than result oriented.

3.3 Research Design

Based on the objectives of this study, it distinguishes between the three main types of research design: Exploratory, descriptive and explanatory studies (Saunders et al. 2007, p. 133). As the purpose of this study is to get the information of international phenomena the exploratory as a research design is adopted.

An exploratory study is a valuable means of finding out "what is happening; to seek new insights; to ask questions and to assess phenomena in a new light (Robson 2002, p. 59). As a matter of fact, the internationalization theories we reviewed in the purpose serious could satisfactory explain the internationalization of CP group. The researcher carried out this study to find out what is the factual force resulted in the internationalization of CP Group which omitted some of the stages in the traditional Uppsala model. In other words, by conducting this study, the researcher wants to gain a comprehensive understanding about the internationalization of CP group.

3.4 Research Strategy

As Ghauri and Gronhaug (2005, p. 112) stated that in historical review, group discussions and case studies are mostly qualitative research methods. In their views, case study is often associated with descriptive and exploratory research. It is a preferable approach when "how" and "what" questions are to be answered (ibid). Furthermore, it is particularly well-suited to new research areas for which existing theory seems inadequate (Ghauri and Gronhaug 2005, p. 115). Hence, it is said that case study is useful if you want to gain a rich understanding of the context of the research and the process being enacted (Saunders et al. 2007, p. 139). Depending on the research problem, researchers can use either single case or multiple cases. Single case is selected because it is typical or because it provides you with an opportunity to observe and analyze a phenomenon that few have considered before (ibid).

As this study is an exploratory research and the researcher place the “how” research question, the case study approach is chosen. The single case study of the CP group is adopted in this study as the existing theories about internationalization such as the Uppsala model; network theories do not fully explain the foreign activities of the CP group. This study have also selected a single case study approach by selecting CP Group since there have been a death of research on the internationalization MNCs from developing countries and ASEAN geographically.

3.5 Instrument of Data Collection

Data collection instruments are used to gather data for performance assessment, self evaluation and external evolution. These are mail, telephone, in-depth interview, in-person and web based survey, direct or participatory observation, interviews, focus groups, expert opinion, case studies, literature search and content analysis of internal and external records. Denscombe (1998), states that researchers should choose most appropriate method to collect data and not the method that are superior over the other methods. According to Yin (2003) there are six different types of methods to choose when collecting the data. These are documentation, archival records, interviews, direct observations, participation observation and physical artifacts in Table 3.2 shows strengths and weaknesses of these six methods. In this study the document is chosen as the data collection, since it was the appropriate method for this study.

Table 3.2: Strengths and Weaknesses of Data Collection Methods

Source of Evidence	Strengths	Weaknesses
Documentation	• Stable: reviewed repeatedly • Extract: contains extract names references and details of an event • Broad coverage: long span of time, many events and many setting	• Based selectivity: if collection is incomplete • Reporting bias: reflects (unknown) bias of author. • Access: may be deliberately blocked
Archival	• Same as above for documentations. • Precise and quantitative.	• Same as above for documentation. • Accessibility due to privacy reasons.
Interview	• Targeted: Focuses directly on case study topic. • Insightful: provides perceived casual inferences.	• Bias due to poorly constructed questionnaire. • Responses bias. • Reflectivity: the interviewee gives what interviewer want.
Direct observation	• Reality: cover event in real time. • Contextual: cover context of event.	• Time consuming. • Selectivity: unless broad coverage. • Reflectivity: event may proceed differently because it is being observed.
Participant observation	• Same as for direct observation. • Insightful into inter personal behavior and motives.	• Same as for direct observation. • Bias due to investigator's

	• manipulation of events	
Physical artifacts	• Insightful into cultural features. • Insightful into technological operations.	• Selectivity • Availability

Source: Yin, 2003

3.5.1 Case Study

Case study means to study few objects in the deeper and more through way, for example one can choose to study an industry, a company or a decision and then make a more profound and detail research. Case study methods used to investigate important topics not easily covered by the other methods. The strength of the case study method is its ability to examine, in depth, a "case" within its "real –life" context. Conversely other methods cover many topics better than does case study research (Yin, 2003). A case study offers a more complete picture of the studied object. (Gummesson, 1988) Case study method arises from at least two situations.

First and most important (Shavelson & Towens, 2002), the case study method is pertinent when your research addresses either a descriptive question (what happened?) or explanatory question (how or why did something happen?) and Second, to illuminate a particular situation, to get a close (i.e. in depth and first hand) understanding of it. The case study method helps you to make direct observations and collect data in natural setting, compared to rely on derived data

(Bromley, 1986). The data for the case study is usually obtained from a series of lengthy, unstructured interviews with a number of people involve in the situation. The case study might be combined with available secondary and internal data sources (Aaker & Day, 1990).

Case study approach is used to conduct this study. Case studies is more appropriate in this dissertation because it collected empirical data based on the descriptive questions (what happened?) or explanatory questions (how or why did something happen?). However, the researcher does not with to draw any general conclusions about all Thai multinational company but rather describe the view of a particular company. The case study approach has been used by researcher to gain a deeper knowledge about the challenges during internationalization process of multinational company.

3.6 Data Gathering

This study used secondary data. Secondary data reveals know roughly how internationalization process of CP Group takes place is. However, each kind of data has its own advantages and disadvantages. By using secondary data, the researcher aims at answering research question in the best way due to the limited timeframe.

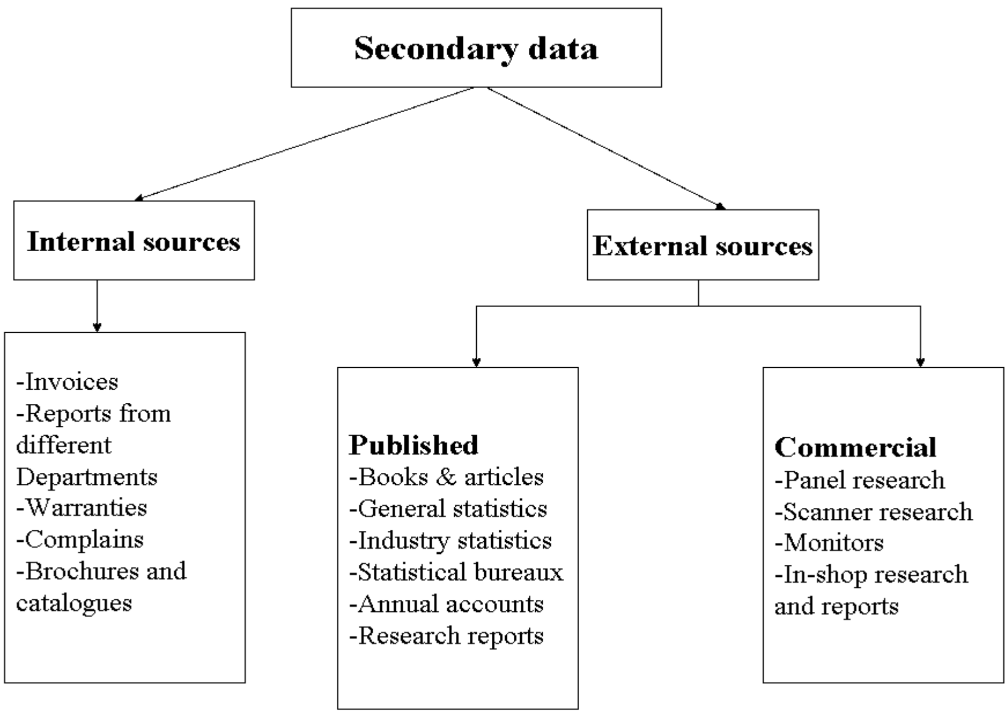
3.6.1 Secondary Data

Secondary data are the data that may have been collected for a different purpose (Ghauri and Gronhaug 2005, p. 91). The first and foremost advantage of using secondary data obviously is the enormous saving in time and money (ibid.). They also suggest suitable methods or data to handle a particular research problem. However, this kind of data may not completely fit your problem as they are collected for another study with different objectives. (ibid) Given these pros and cons, many scholars recommend that all study should, in fact, start with secondary data sources (ibid.).

In this study, the researcher obtained the secondary data from both sources. Regarding internal sources, researcher used information from CP group. In case of external sources, researcher collected data from books, articles, previous researches, and web site. In addition, this paper utilized information on CP Group homepage and other websites which contain relevant information about the CP group in this study. All of these sources ensured that researcher have adequate and reliable information to conduct the study.

This study used secondary data from two sources, i.e.: internal sources and external sources as the figure 3.1:

Figure 3.1: Types of secondary data



Source: Ghauri and Gronhaug 2005, p. 100

3.7 Method of Analysis

There are two different strategies for analyzing data. The first strategy follows the theoretical propositions that lead to the case study. The propositions are based on the objective of the research and on review of literature. It helps to guiding case study analysis. A second general analytical strategy is to develop a descriptive framework for organizing the case study. This means to create a theory or a frame of reference based on what is found in the case studies (Yin, 2003).

CHAPTER 4

ANALYSIS AND FINDING

4.1 Introduction

This chapter reported the analysis and finding of the study of internationalization process of Thai multinational, namely CP Group which specific focus on motives of internationalization, foreign market entry strategy, and foreign market selection. It also focus on pre- and post-crisis of international activities of the firm, then to identifying on core business that is agriculture, distribution and retailing, and telecommunication.

4.2 Background of CP Group

The origin of the CP Group can be traced to the 1921 founding of the Chia ung Shop, a small shop selling vegetable seeds. Escaping the economic differently in China during the 1920s, Chia Ek Chor (b. 1895) and his brother, Chia Seow Hui (b. 1905), came to Bangkok and established a seed trading shop house in Chinatown area. While the younger brother stayed in Thailand, Ek Chor traveled to China, Hong Kong, Singapore and Malaysia to promote his trade s. In Thailand, the business expanded and branches were set up in Hat Yai, a major city in Southern Thailand in 1939, as well as in Penang and Singapore. The Chia Tai

Chung shop in Bangkok initially focused on the trading of seeds and some rural chemicals, but later expanded into exporting of basic food items to via Hong Kong. Commercial trading remained their main business until Ek eldest son started chicken feed milling in 1954. (Pavida, 2001)

The Charoen Pokphand (CP) Group is a Bangkok-based multinational with affiliated companies operating in 20 countries, employing more than 100,000 people, and generating an estimated total group turnover over US$ 14 billion in 2006. (http://www.cpthailand.com, accessed in February 2009) The group's business interests are seeds, fertilizer and plant protection, agro-industry, aquaculture, petrochemicals, real estate and land development, automotive and industrial products, telecommunication, petroleum and power, packaged food, international trading, marketing and distribution and are organized as independent divisions reporting to the corporate head office in Bangkok. (http://www.cpthailand.com, accessed March 2009) CP has also made an effort, unusual among Asian conglomerates, to achieve a degree of financial transparency, including publicly listing a number of its key businesses. These included CP Feed mill, which groups most of the CP's core feed mill and livestock poultry, pigs, and tiger shrimp businesses in Thailand, and, in Hong Kong, CP Pokphand, which oversees the group's vast livestock and feed mill holdings (some 200 subsidiaries) on the Chinese mainland.

Other key CP holdings include TelecomAsia, challenger to the government run phone company in Bangkok, which has built a network of 2.6 million fiber optic telephone lines for the city; Siam Makro, the group's discount retail chain; Ek Chor China Motorcycle, the New York Stock Exchange-listed maker of motorcycles for the Chinese market; and Vinythai, a maker of polyvinylchloride and other petrochemicals, developed in partnership with Belgium's Solvay. Other holdings comprise retail stores including a share in the Tesco Lotus supermarket chain and the 7-11 convenience store franchise for Thailand and restaurants, including the group's Bua Baan fast-food concept featuring CP's own processed foods. Despite its diversified activities, the Asian economic crisis of the late 1990s encouraged CP to restructure itself around a core focus of agribusiness and food operations through a new flagship company, Charoen Pokphand Foods. As such, the group has adopted a new slogan as the "Kitchen of the World." CP has long been led by Dhanin Chearavanont, son of one of the company's founding brothers. (http://www.cpthailand.com, http://www.cpf.com, accessed March 2009)

4.3 CP's Business Group

The business group of CP group can be divide into ten categorizes, that will identifying below: (http://www.cpthailand.com, accessed April 2009)

4.3.1 Agri-Business and Foods

CP Group's integrated agribusiness, positions the group to meet the world's changing lifestyles need for affordable, nutritional, and high quality food products. Consisting of five divisions (Seed, animal feed, livestock production, further processing, and trading), their horizontally and vertically integrated agribusiness enables the group to create value by supplying needs anywhere across the world.

One of the largest animal feed producers in the world, CP's feed manufacturing dates back to 1954, as an offshoot to its original seed supplying business. From its initial development to today, CP's local and international feed mills, produces food for their livestock consisting of poultry, swine, and aquaculture businesses.

CP's poultry, swine, and aquaculture businesses (CP Foods) were formed through strategic partnerships with leading international livestock organizations over 30 years ago. Today, their operations enable the group to breed various livestock, operate farming systems, process meat, and conduct mass food production in both commodity and value-added forms for both local and international consumption. In addition, their agribusiness and food industry business has cleared internationally recognized health and safety regulations, which includes GMP, HACCP, and ISO 9000 and 1400, enabling the group with the ability to provide consumer products that are safe and hygienic.

4.3.2 Marketing and Distribution

Throughout the years, CP has constantly sought to provide premium quality products and services at easily accessible stores. The creation of convenience stores, shopping malls and hyper supermarkets has enabled the group to serve consumers wants and needs efficiently and effectively.

CP's Seven Eleven was created ten years ago with a goal to offer consumers greater convenience and services anywhere throughout Thailand. Today, its growth rate in Thailand has reached 400 stores per year making it the nation's premier convenience store with 4,030 stores today.

CP's Lotus Super Centers was created to provide Chinese consumers with high quality merchandise at everyday low prices amid a comfortable shopping environment. This new 'one-stop' shopping experience allows family members to shop from a large assortment of quality merchandise amid a warm and friendly service. Today, there are 79 Lotus SuperCenters situated across China.

CP's Super Brand Mall is China's first and largest one-stop shopping and entertainment complex. Located in Pudong district Shanghai, Super Brand Mall caters to all ages whether it is for shopping, fine dining, or entertainment needs. Today, Super Brand Mall provides 130,000 daily customers with retail products and services from throughout the world.

4.3.3 Telecommunications

CP's telecommunication services in Thailand, was established during the late 1980's. Known as True Corporation Plc, True is Thailand's most integrated communications solution provider, convergence leader and prime lifestyle enabler. Offering 'Triple Play' of voice, video and data services across its integrated platform, True is strategically positioned to provide consumers with a convergence of network services and content.

Based in Bangkok, True currently services more than nine million subscribers, which includes Thailand's third-largest mobile operator (True Move), the country's largest broadband and dial-up internet provider, largest fixed-line phone operator in BMA, and only nationwide cable-TV provider (True Visions).

4.3.4 Seed, Fertilizer and Plant Protection

The Chia Tai Business Group operates within the ‘seed’, ‘fertilizer’ and ‘crop protection’ markets. The Chia Tai Business Group produces and sells a full range of seeds (vegetables and flowers) and fertilizers (various formulas). In addition, the business group has developed organic vegetables for local markets and offers consultation farming services as well. With over 80 years of experience, the business group currently caters to the local and Asian markets.

4.3.5 International Trading

The International Trading Business Group was established in 1979 to conduct trade ranging from basic agricultural products and industrial raw materials to high value-added foodstuffs. With over 25 years of international trade experience, the International Trading Business Group is promoted by Thailand’s Board of Investment. The business group’s award-winning rice products are known under the brand name ‘Royal Umbrella’.

4.3.6 Crop Integration

The Crop Integration Business Group, operates 4 main businesses from its success garnered through years of research and development in the area of ‘Field Crops’, ‘Horticulture’, ‘Rice’ and ‘Agricultural Machinery’. Products such as hybrid corn, rice, fertilizers, tropical fruits, orchids, tea, wine, disease-free planting materials and food processing machinery are samples of the Crop Integration Business Group's achievements. Today, the Crop Integration Business Group supports local as well as international farmers situated in China, Vietnam, Indonesia, Myanmar, Cambodia, India, and etc.

4.3.7 CP's Plastic

Providing basic and advanced petrochemical products that enhance the quality of life, CP's Plastic Business Group, manufactures a wide range of products from polypropylene, PVC, artificial leather, and sponge to rigid PVC. One of Thailand's largest plastic manufacturers, the group is committed to upholding global standards in terms of quality; reliability and efficiency, in addition to creating value-added products for every-day use that are better, safer and more convenient for customers around the globe.

4.3.8 Pet Food

The Pet Food Business Group, devoted to developing and providing balanced and nutritional food, including special diet formulas, vitamins, treats and chews, plus care products, for specific breeds of dogs, cats, birds, aquarium fish, horses and zoo animals, that conform to the highest standards of the US National Research Council and the protocols of the American Association of Feed Control Officials (AAFCO) and HACCP, are adhered to in its daily routines.

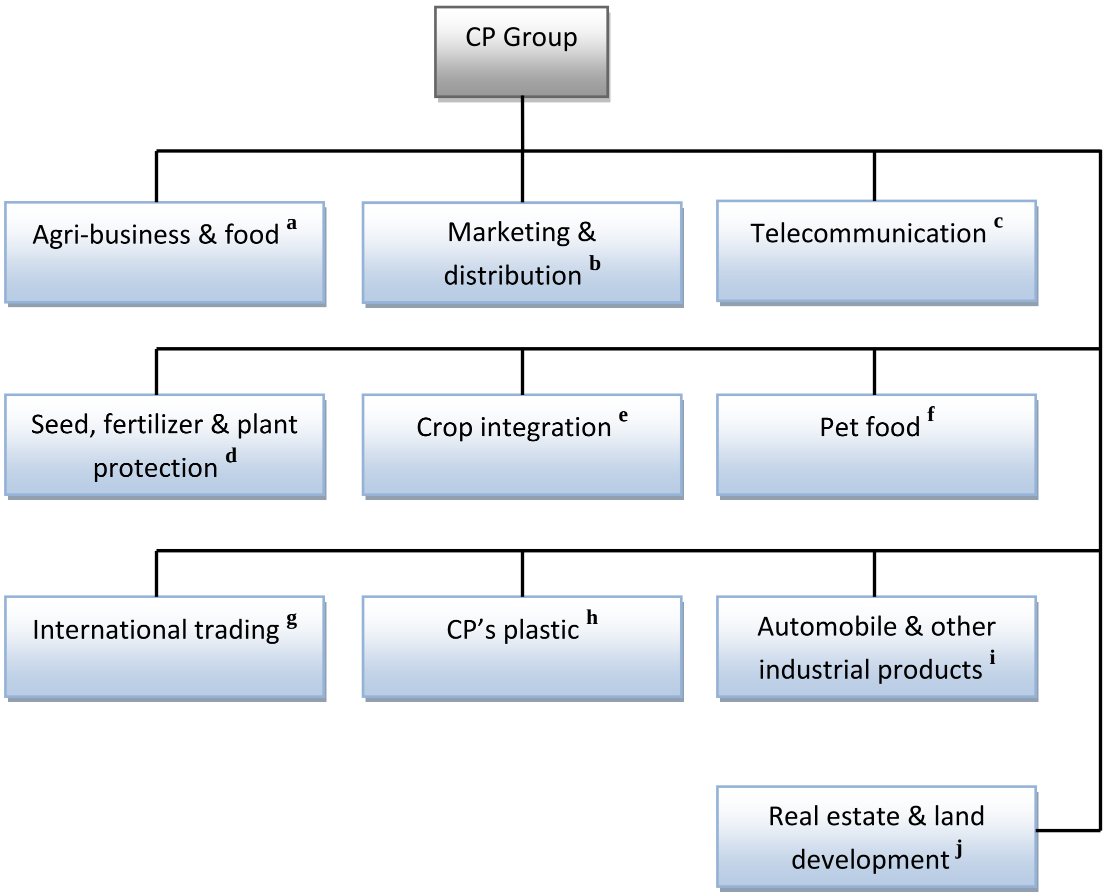
4.3.9 Automotive and Other Industrial Products

The Automotive and Industrial Products Business Group, with experiences since 1985 is a large-scale Sino-foreign joint-venture which specializes in manufacturing motorcycles (Under the DAYANG trademark) and automotive parts. With a production reach of 1 million units per year in China, the company currently produces 50 models covering 8 series of motorcycles ranging from 50cc to 200cc. Apart from supplying products to the domestic market, the company's products are exported to countries in Europe, Asia, Africa, North and South America

4.3.10 Real Estate and Land Development

The Real Estate and Land Development Business Group owns and manages numerous property sites within Thailand. Current property sites include apartment, hotel (The Grand Mercure Fortune), office buildings, shopping centers, industrial estates, and etc.

Figure 4.1: Business Group Structure of CP Group



Note: [a] Charoen Pokphand Food PLC. (CPF PLC.), CPF Feed, Bangkok Produce PLC., Chester Grill Co., Ltd., International Pet Food Co., Ltd.

[b] Lotus Supermarket, Sunny Supermarket, 7-Eleven, Chia Tai Group (China), Shanghai Lotus Supermarket Chain Store Co., Ltd (SLS) (China), CP Retailing and Marketing Co., Ltd., Counter Service Co. Ltd., Ratailink (Thailand) Co. Ltd., CP Seven Eleven PLC., Dynamic Logistics Co. Ltd., Thai Smart Card Co. Ltd., CP Consumer Products Co. Ltd.

[c] Asia Wireless Communications Co., Ltd., Pantavanij Co.,Ltd., True Internet Co., Ltd., True Move Co.,Ltd., Wire and Wireless Co. Ltd., Freewill Solutions Co.,Ltd., True Corporation PLC., True Internet Data Center Co.,Ltd., True Visions Public Co.,Ltd.

d	Chai Tai Co. Ltd.
e	Crop International Business CP Group
f	Perfect Companion Co. Ltd.
g	CP Intertrade Co. Ltd.
h	PetroAsia (Thailand, China), Vinythai.
i	Shanghai Ek Chor (China), Ek Chor China Motorcycle, Echo Autoparts
j	--------

Source: Constructed by Author based on CP Group website: http://www.cpthailand.com

4.4 Motives of Internationalization

There are many reasons for CP to make inroads into markets in other countries. The main reasons for CP to expand business internationally are to maintain its leading position in trade and industry and to ensure its long-term growth and profitability. (Annez et al., 1998) According to Wee (2007), it stated that most of motives of internationalization of CP Group consists of market-seeking, support trade and distribution channels, exploit long term internationalization experience, investment opportunities in host countries, and business networks and connections abroad. (See Appendix 1)

However, to identifying the motives of internationalization of the firm in this study that will identifying based on two periods that are pre- and post-crisis, where during the pre-crisis internationalization process, ties with financial institutes and foreign technology partners were the firm most significant types of networks that contributed to the rapid rise of the firm. In the post-crisis period, the emphasis was placed more on cultivating links with foreign partners who could strengthen their industry-specific competitive advantage.

4.4.1 Pre-Crisis: Scope, Scale, Technology and Network Capabilities

CP Group's domestic growth and international expansion were driven by both industry-specific technological skills and generic networking capabilities. In their pre-crisis international expansion, industry-specific competitive advantages of the group were derived from economies of scale and scope, as well as their production process capabilities. (Pavida, 2007) CP's scale and scope in the agri-business industry made the group second to none in the Asian region. CP's complete vertical integration enabled the group to achieved scale economies in the agri-business industry not only in Thailand, but also in countries where there were few modern big enterprises in agri-business.

The group benefited tremendously from their diverse networks. (Pavida, 2001b, 2007) Starting with financial sources, CP's connections with local and international financial sources were no less impressive. The group's close relationships with the Bangkok Bank date back to the 1970s when the bank served as the major creditor for CP's contract farming scheme. In addition, CP was closely connected with the Thai Farmers Bank, as the latter developed interests in CP's feed milling ventures (Christensen 1993: 268-94). CP's financial clout was further enhanced by the public listing of its subsidiaries in many overseas stock markets, including London and New York. Both groups' close ties with financial sources not only improved their financing ability, but also endowed them with valuable information and expansion opportunities both in the domestic and international markets.

The second crucial source of networks was political connections. CP's relationships to the local powerful elite were equally extensive, CP had been known for its generous support to most major political parties in Thailand, particularly the good relationship with Thai Rak Thai party. On top of political connections, CP developed close links with the military, which held significant power in Thai society. The military maintained its influence in some industries, notably telecommunications another significant activity in the CP's empire. CP's close links with political parties and especially with the military were epitomized in the infamous two-million telephone concession granted to the group in 1991 (Nukul 1996, Sakkarin 2000, Pavida 2001a, 2001b). CP's later victory in various concessions was also allegedly linked to the major political party that was then in charge of the Ministry of Communications (Corporate Thailand, September 1996: 40-53). Furthermore, CP often invited top-level government officials to join the group as honorary advisors or full-time employees. Some of those included: the former directors of the Telephone Authority of Thailand and the Petroleum Authority of Thailand, a former army chief and prime minister, as well as wife of a former deputy prime minister (Handley 1997).

The third source of crucial connections was with foreign technology suppliers. With its strong local position, CP had had no problem attracting leading foreign multinationals that were looking for local partners. CP was second to none when it came to sourcing technological partners. In addition to the milestone partnership with Arbor Acres that allowed it to prosper in the poultry industry, the group formed a host of other alliances with leading foreign multinationals across, industries. Examples included Nynex and Orange in telecommunications, the Mitsubishi group in shrimp feed, Oscar Mayer in meat processing, the Allianz group in insurance, and Tesco and Makro groups in warehouse retailing. (Pavida 2001b)

Fourth, social networks based on ethnic ties played some role in CP's pre-crisis international expansion. Although CP's general profile fits the stereotype of in China as arising out of ethnic ties and ancestral loyalty. While common cultural backgrounds and language certainly made it easier for CP to invest in China, it was more mutual benefits that lay beneath the relationship between the CP Group and Chinese state apparatus that prompted CP's long-term interests in China. (Pavida, 2006)

4.4.2 Post-Crisis: More Value-added Products and Less Personalized Network Relationships

It was not until the early 2000s that the firm re-embarked on their international expansion drive. Changes in the economic environment along with their experience from the post-crisis international expansion certainly led to differences in the dynamics of these Thai multinationals' international expansion. Having realized that the pre-crisis rapid and opportunistic expansion was not sustainable in the long run, the firm readjusted their international strategy to make international expansion a significant part of their overall corporate strategy rather than opportunistic growth opportunities. The shift in their focus was reflected in the dynamics of their post-crisis internationalization.

Although both industry-specific technological skills and generic networking capabilities remained crucial, their nature appeared to be different in the pre-crisis and post-crisis periods. (Pavida, 2007) To cultivate their industry-specific advantage, CP extended its focus from production to higher-value activities in their value chain and CP emphasized brand creation and downstream integration into retailing. In addition, the groups' post-crisis international expansion reflected an increased focus on efficiency creation for their overall operation. Although the search for new markets remained a key purpose for these firms' international expansion, efficiency-seeking investments through upstream expansion were given much more prominence. Although these attempts may not have clearly borne fruits, the shift in emphasize showed a marked difference from the pre-crisis international expansion. (Pavida, 2001b)

The firms' post-crisis focus on network relationship differed in nature rather than in kind. While the four types of networks that were crucial to their pre-crisis international expansion remained significant, the nature and the relative significance of each type of network relations changed in the post-crisis expansion. During the pre-crisis internationalization process, ties with financial institutions and foreign technology partners were the two most significant types of networks that contributed to the rapid rise of these Thai multinational. In the post-crisis period, the emphasis was placed more on cultivating links with foreign partners who could strength their industry-specific competitive advantage. The nature of financial networks also changed for the firm. Because the 1997 crisis revealed weaknesses of the high leverage expansion strategy, the group turned to the capital market as an additional source of funding. In order to reduce their dependence on bank loans, clear attempts were made to attract institutional investors. (Pavida, 2001) For example, corporate restructuring and information disclosure received much more emphasis compared to the pre-crisis period. The nature of third type of networks-political connections, especially with host country governments, similarly underwent some changes. This point could be more direct and extensive. In addition to behind-the-scene personal networking with local authorities, CP tried to increase the transparency of their relationships with host governments through formal channels, such as MOU cooperation agreements with the provincial government of Queensland and the California state. (Pavida 2001b, 2007) To avoid being perceived as one of the Asian ‘crony capitalists’, the group played down the aspect of political and social networks and stressed the formal links with host country authorities instead.

4.5 Foreign Market selection and Foreign Market Entry Strategy

To study the market selection and entry mode strategy of the group, in this part will examine through pre-crisis and post-crisis period based on core industry of the group that is agri-business and Foods, marketing and distribution, and telecommunication.

4.5.1 Pre-Crisis International Expansion

CP's international expansion prior to the crisis was driven by the search for new markets that the group could exploit its competitive advantages based on its accumulated technology in agri-business. Growth opportunities in the host country's market were the main attraction for CP’s early international expansions, most of which were concentrated in neighboring countries. Developing countries not only offered more opportunities for growth. They also shared some institutional similarities with which the group had been familiar. The understanding of how developing-country markets work was an important part of

CP's knowledge. It allowed the group to be more tolerant to and flexible with the unpredictable environment that characterized these markets. (Pavida, 2006)

The most of CP's international expansions in agri-business were undertaken to supply the growing demand in the host countries. There were only few locations, namely China, Turkey and Portugal, which CP intended to use as export bases. While CP's main source of advantage in Thailand was the scale economies achieved through its vertical integration, only a selected number of operations outside Thailand, namely Taiwan, Indonesia, and Turkey, was that vertically integrated. The majority of international investments in other countries were concentrated in the production and sales of animal feeds (CP Pokphand Annual Report, various years). Despite CP's vast investments in China, there were only two subsidiaries Heilongjiang Chia Tai and Qingdao Chia Tai which were involved in meat processing production. The main activity of CP’s other 100-plus subsidiaries in China were production and sales of animal feeds and chicken (CPP Annual Report 2003). Given this nature of CP's investments, Thailand remained the key export base, while Shanghai contributed toward some exports to Japan (Pavida, 2006).

1. Agri-Business and Food

In 1948, Jaran, Ek Chor's eldest son, returned from his studies in China and looking to start up a new business apart from seed trading. In 1954, Jaran set up one feed shop named "Chareon Pokphand", meaning "commodity development" in the family business became divided into two lines, with Jaran running the feed business, while his uncle supervising the original trading business of seeds, fertilizers and insecticides. (Pavida, 2001b)

Dhanin Chearavanont, the current Chairman and CEO, took over the leadership of the family firm in 1963. Dhanin's focus was to make the company more modern through the recruitment of non-family staffs, the development of compound feeds and investment in new machinery. At the end of 1960s, the company an important player in the animal feed industry, holding 90 per cent of the in 1968 (Wichai 1993:62). Animal feed production remained the core activity group until today.

A major milestone for CP was its joint venture in 1970 with Arbor Acres, a US poultry-breeding firm. The 60:40 joint ventures were established to import purebred chickens and to breed parent stock for CP's farming operations in Thailand. This joint venture proved most productive for CP, as the company acquired some basic breeding technologies and learned about the broiler industry

Arbor Acres's experience in the US market. It was the latter that prompted CP further integration in chicken slaughtering and processing (Pavida, 2001b). Such integration not only increased the demand for animal feeds, but also allowed the group to enter lucrative markets of frozen chicken exports that were growing rapidly in the early 1980s.

With the production side under control, the CP group expanded further along distribution lines. By the end of the 1970s, CP was able to secure a strong hold in the integrated broiler industry, controlling activities from animal feed production, livestock farming, and meat processing to distributing to consumers. The success of the broiler industry led CP to replicate the vertical integration strategy in swine and shrimp production in 1980 and 1988, respectively. The revenues generated from the group's agro-industries further allowed it to diversify into a variety of industries unrelated to agriculture.

CP's entry into Indonesia was made possible by the opening up of poultry farming to corporate farmers after President Suharto's rule became stabilized (Handley 1997). Further investment in poultry farming and fisheries later followed in 1974 and 1976. During the same period, CP expanded its feed mill investment to Hong Kong in 1974, Singapore in 1976, and Taiwan in 1977 (Wichai 1993: 269274). International investment during the 1970s also included an insurance company and at least three investment and finance companies in

Hong Kong. All these investment companies served as sources of funding in CP's China ventures because Thailand still imposed strong control over currency outflow.

Investment in China started soon after the Open Door Policy was implemented. In 1981, Conti Chia Tai, a joint venture between CP, Continental Grain Co., Ltd. of the USA, and a local Chinese authority was set up. This venture was reported to be the first foreign joint venture in the newly established Special Economic Zones (SEZ) of the Shenzen area (Pavida, 2001b). CP's activities in China were generally carried out in three forms: joint ventures, wholly-owned subsidiaries, and cooperation where the Chinese partners did not put up cash but provided other support such as land (Pavida, 2001b).

CP's investment in China followed its formula which had been proved successful in Thailand and Indonesia. Feed milling was used as a pioneer, and then poultry farming and meat processing were later introduced. In 1997, CP operated feed mills in twenty seven out of thirty provinces in China (Pavida, 2001b).

Other manufacturing investments in China included two beer breweries. Shanghai Mila Brew was a joint venture with the Heineken group (announced in

1993), while Trillion Brewery (announced in 1994) was a joint venture of CP with two other Thai business groups: the Boonrawd Brewery group and the Siam Commercial Bank.

In late 1994 CP Vietnam Livestock Co., Ltd. (or CP Vina as it is known locally) was opened as CP's first animal feed plant in Vietnam. The company is under CP's Agro-industry Group. At the end of 1995 CP had two mills in Dong Nai, with a monthly capacity of 24,000 tons. CP Vina's feed, sold under the brand "Hi-Gro", has about 30% of the total Vietnamese feed market, making it the present market leader. CP Vina has several expansion plans, including new feed mills in North Vietnam, hatcheries, abattoirs, farms and processing plants. Their market penetration will follow its usual pattern of backward integration, probably followed by a forward integration of activities. (Annez et. al., 1998)

Having analyzed Turkey in the terms of agricultural industry, CP Group decided that it would be contributory for the economy of the country which is dynamic; to operate in the field of its area of specialization namely, feed technology. Hence, CP Group established its first feed mill in 1986, "CP Standart Gıda San. Ve Tic. A.Ş", in İnegöl and gave start to its operations in Turkey. With its international technology and quality, CP Standart Gıda San. Ve Tic. A.Ş is playing a vital role in developing both the feed sector and chicken meat sector, and continues to contribute to the economy of the country. CP Group, with its major investments in broiler chick, poultry and cattle feed, chicken meat and further processed meat products in many countries of the world, is an international conglomerate, and with its investments of more than US $50 million has been maintaining its activity in Turkey for 18 years with a steady growth. Through its production of poultry and cattle feeds which are in compliance with international standards in 6 feed mills and through its experienced expert technical staff composed of veterinary and agricultural engineer, CP Group has been zealous to provide the best service for producers for many years. (http://www.cpturkiye.com/channels/10.asp?id=457)

The CP Malaysia was incorporated in 1974 primarily in the Poultry Integration Industry and it's now one of the market leaders of the sector. In 1992 the group established a new business line, aquaculture industry in the country which then became a subsidiary group of companies of Charoen Pokphand Foods Public Company Limited. (Malaysia New Straits Time, http://www.mns.com.my, accessed March 2009)

2. Marketing and Distribution

CP initially expanded within agribusiness. The group began its diversification away from agribusiness and food processing only in the late 1980s when it invested in retailing. Attempts at retail level included selling grilled chicken under the Five Star brand, and later starting a fast food chain called Chester's Grill. In 1984, CP and the Central Group became the Thai franchise for KFC restaurant, to which CP also supplied chicken (Yuthasak, 2001) New investments in this area included: a joint venture with the Netherlands-based SHV Holdings to set up Makro, a warehouse supermarket (1988); a franchise agreement for the convenience store 7-Eleven (1989); Sunny's Supermarket, the group's own supermarket chain; and Lotus Super Center, the group's own chain of wholesale supermarket (1994).

CP opened its first Makro outlet in 1992. The two partners, along with a Taiwanese partner, had also operated Makro outlets in Taiwan since 1989 (Pavida, 2001b). In addition, CP introduced its own warehouse outlet, Lotus Super Center, to China in 1996 after a planned joint venture with the US-based Wal-Mart collapsed. Wal-Mart, on the other hand, entered China by itself in the same year (Handley 1997). By 1995, the number of CP's retail outlets in China reached 14 (Brown 1998: 629). Other retailing projects in China included shopping malls, a jewelry exchange center, and a seafood restaurant. All were joint ventures with both Thai and Chinese partners (The Nation, 22 November 1995).

3. Telecommunication

The diversification of the CP group was in telecommunications. CP set up a new subsidiary, CP Telecommunications (later renamed TelecomAsia), to bid for a build-transfer-operate license from the Telephone Organization of Thailand (TOT). It was the first time that TOT allowed private firms to take part in installing and operating phone lines throughout Thailand. TelecomAsia (TA)'s winning of the concession in 1990 triggered a heated and prolonged conflict that became one of the most controversial episodes in Thailand's privatization history (Nukul 1996, Sakkarin 2000). CF's further expansion in the telecommunications industry was carried out through Telecom Holding (TH), the group's telecommunications investment arm. Through TH, CP had investments in at least forty subsidiaries covering a wide range of communications and media-related industries, including cable television, satellite-based communication services, and submarine fiber-optic cable network (TelecomAsia Annual Report, 1997).

CP was actively expanding its telecommunications business abroad. Again, most activities were concentrated in China, although the group held a 15-percent interest in Kopin Corporation, a Nasdaq listed electrical equipment company, and 16-percent equity in the Fiber-optic Link Around the Globe (FLAG), an international project led by Nynex, the major foreign partner with TelecomAsia. CP's telecommunications investments in China included: 10-percent equity in APT Satellite, a satellite transponder controlled by the Chinese government; a 40-percent holding in Chia Tai Vision (Shanghai), a television program producer; and 49-percent equity in a joint venture with a Chinese authority to manufacture telecommunications equipment (TelecomAsia, Annual Report 1997).

Table 4.1: Foreign Market Selection and Foreign Market Entry Strategy of CP's Pre-Crisis International Activities

Business Group	Foreign market selection*	Foreign market entry strategy
Agri-business and foods	Indonesia, Hong Kong, Taiwan, Malaysia, India, Singapore, China, Turkey, USA, Vietnam, Cambodia, Myanmar,	Exporting, joint venture, and wholly-own
Marketing and distribution	Taiwan, China	franchise, joint venture, wholly-own
Telecommunication	China, Hong Kong, USA	Joint venture

Source: Constructed by the author based on Pavida 2001a, 2007.

4.5.2 Post-Crisis Adjustment

CP's post-crisis adjustments in agri-business were characterized by the move downstream toward retailing and distribution of more value-added products. The intensified integration into retailing and distribution was the main drive behind

CP's post-crisis growth both in Thailand and China. CP had not expanded its feed and poultry activities in China since 1997, but had focused instead on motorcycle trading, retailing and distribution. The group expected its industrial activities to contribute as much as fifty per cent of its turnover in China by 2015. (Pavida, 2006) Such increase was not small, given that seventy per cent of the group’s 2004 turnover was attributed to agri-business.

Although vertical integration remained the key to CP’s pre- and post-crisis competitive advantages in agri-business, its nature differed. While CP's pre-crisis integration was concentrated in the production and sales of animal feeds and chicken, the post-crisis strategy placed a much stronger emphasis on the production and sales of processed meat, and the retailing and distribution activities. The extensive integration into retailing served as a strong competitive advantage for CP’s international expansions, as few other agri-business multinationals were able to integrate into retailing activities (Burch and Goss 2005). The emphasis on retailing appeared to be the main engine of growth of the CP Group, especially in China.

1. Agri-Business and Foods

Currently, Thai restaurant in the People’s Republic of China which CPF subsidiary of CP Group invested in this business through its indirect wholly owned subsidiary, CP Food Product (Shanghai) Co., Ltd. The objective of this business is to introduce Thai fast food restaurant that applying the production which yields Thai foods of standard taste. Presently, there is one Thai restaurant under "Thai" trademark in the People's Republic of China. (CPF annual report 2008)

In aquaculture business, the group also invested in this business through its direct wholly owned subsidiaries, C.P. Aquaculture (Beihai) Co., Ltd. and C.P. Aquaculture (Hainan) Co., Ltd. The main objectives are to manufacture and distribute aquatic feed and operate an aquatic culture farm in the People's Republic of China. Moreover, C.P. Aquaculture (Dongfang) Co., Ltd., a new 100% direct holding subsidiary is set up in 2007. The objective is to run shrimp hatchery in the People's Republic of China. The operation generated revenues in May 2007. (CPF annual report 2008)

In addition, in 2007, the Company has new subsidiaries; C.P. Aquaculture (Dongfang) Co., Ltd. ("CPD") is established in the People's Republic of China in January 2007, with the initial capital of RMB 32 million or about THB 144 million. The object is to run shrimp hatchery business in the People's Republic of China. CPF invested in this business through its indirect 100.00% holding subsidiary, C.P. Standard Gida Sanayi ve Ticeret A.S. ("CPS"), who has operated chicken integration. The business has spread out in various part of the country. (CPF annual report 2008)

In 2005 CP Group reached a feed production of 628,000 tons, thus maintaining its leadership that continues for years. On the other hand, in the chicken meat integration project which started in 1991 the CP Group has showed the same success. Today, through breeder farms, hatcheries and 6 slaughterhouses, slaughter of 200,000 chickens is carried out daily and is distributed to the points of consumption throughout the country within the cold chain. Being the sole integrated chicken firm that possesses the grandparent breeder mill producing parent breeder in Turkey, CP Group has stood at the forefront of the sector by producing 104,000 tons chicken in 2005. CP Group's turnover in 2005 was 338 trillion TL, and the turnover in 2006 is expected to be 390 trillion TL. (CPF annual report 2007)

In 2005, in the study of Istanbul Chamber of Industry listing the first 500 largest companies, CP Group was the 89th, and it was the 15th largest company in the list of food industry. In the field of agricultural industry, CP Group has recorded many successes through its expert personnel, high production efficiency and effective marketing carried out by the experienced and consistent sales staff. Since the day it started to invest in Turkey, the CP Group has adopted a main principle of contributing to the Turkish agricultural industry and Turkish people. With the help of a performance evaluation which runs on the basis of targets for a perpetual success, CP Group also provides employees with the chance of continual training and improvement. As a consequence, CP Group's investments in Turkey continue increasingly. (CPF annual report 2007)

The livestock and aquaculture businesses in India, the company invested in these businesses through its indirect 71.20% holding subsidiary, Charoen Pokphand (India) Private Limited ("CP India"). The main objectives are to manufacture and distribute animal feed and operate animal farming in India. (CPF annual report 2008)

In Malaysia, a member of Thailand SET's 50 in 2005 and now they are fully expanding their productivity in Aquatic Feed, Aquatic Breeder, Meat & Food Products and Trading across the country. Their main office is located in Kuala Lumpur and they have branches in Port Klang, Selangor, Penang, Johor, Sabah and Sarawak. CP Malaysia Aquaculture Business Group strives to maintain its leading position in the aquaculture industry and successfully compete in the international arena. Aquaculture Business Group consists of three subsidiaries: Calibre Nature (M) Sdn Bhd, Star Feedmills (M) Sdn Bhd and Asia Aquaculture (M) Sdn Bhd.

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The chilled production plant in England, the company invested in this business through its indirect 52% holding subsidiary, CP Foods (UK) Limited.

The main objective is to produce a chilled food products supply in European Union. In addition, CP Foods (UK) Limited ("CPF UK"), a subsidiary in which CPF has indirect holding of 52.00% in its paid-up capital, invested in 11 companies at their par value of Pound Stering 1 per company. The total investment was at Pound Stering 11 or about THB 750. The objective is to support the Group's imported of processed products from poultry business in the Europe. (CPF annual report 2008)

The livestock business in Russia, the company invested in this business through its indirect 99.99% holding subsidiary, Charoen Pokphand Foods (Overseas) LLC ("CPF Overseas"). The main objectives are to manufacture and distribute animal feed and operate animal farming in Russia. Currently, CPF Overseas is under process of construction of its animal feed plant with capacity of 240,000 ton per year. It is expected that the plant will be completed and ready to run in the 3rd quarter of 2008. (CPF annual report 2008)

The livestock business in Lao People's Democratic Republic, the company invested in this business through its indirect 99.61% holding subsidiary, C.P. Laos Co.,Ltd. ("CP Laos"). The main objectives are to manufacture and distribute animal feed and operate animal farming in Lao People's Democratic Republic. CP Laos began to generate revenue in July 2007. (CPF annual report 2008)

The Aquaculture business in Philippines, the company directly holds 100% in Charoen Pokphand Foods Philippines Corporation (CPFP), which set up in 2007. The main objective is to run shrimp hatchery in Philippines. The operation of CPFP is expected to begin generating revenues in June 2008. In addition, Charoen Pokphand Foods Philippines Corporation ("CPFP") is established in Philippines in May 2007, with the capital of Philippines Peso 50 million or about THB 37 million. The objective is to run shrimp hatchery business in Philippines. (CPF annual report 2008)

2. Marketing and Distribution

The group's decision to focus on the retail sector led to several major changes. First, CP expanded its retail operations in Thailand and China through various formats, ranging from hypermarket to convenience store. Although CP relinquished most of its stake in Lotus Supercenter in Thailand,' the group maintained its hypermarket operations in China. CP operated twenty-five Lotus Supercenter stores in 2004, and planned to increase the number of stores to a hundred by 2006 (Pavida, 2006). In addition to hypermarket stores, CP strengthened its operations of the 7-Eleven convenience stores in both Thailand and China. There were 3,000 stores in Thailand by the end of 2004. In China, CP won the franchising right to operate the 7-Eleven stores in 1997 (Phujadkarn Rai Duen, February 2000). CP's expansion in the retailing industry also included the creation of its own retail outlet in Thailand, CP Fresh Mart, which carried only CP food products. Five branches had been set up by 2005, and the group set a target of 200 branches by 2008 (Phujadkarn Rai Duen, March 2005). The fast food industry was another target for CP's expansion in retailing and distribution. In 2001, CP sold its fifty-one per cent share in CP-KFC Development (Thailand), the major KFC franchisee, to its partner (Yuthasak 2001). Although CP continued to be a major supplier to KFC, this sale terminated the group's seventeen-year right to the KFC franchise that started in 1984. It also signified CP's attempt to develop its own fast food chains that might include fried chicken."

The second change toward CP's strengthening of its retail operations in international markets was the transfer of control of CP's trading offices. Prior to the crisis, CP's trading arms were under the management of CP Intertrade. However, the consolidation of CP’s food businesses led to the transfer of trading offices that were mainly responsible for meat products to the management of CP Foods, the group's main subsidiary in the food industry. As a result, CP Intertrade’s responsibilities were shifted toward providing logistical services to the group's international trade operations and handling the trade of non-group products, such as rice (Pavida, 2006). This shift affected only the management control, but not the number of the group's trading offices. In 2005, the group had twenty trading offices spreading throughout the world."

3. Telecommunication

CP’s adjustments in the telecommunications sector can be summarized under two main strategies: Reduction of international orientation, and expansion into mobile telephone, broadband internet, and other content-related areas. Contrary to the pre-crisis years, during which the group invested in several overseas projects, CP's post-crisis international strategy in telecommunications was primarily to get rid of them. CP sold its equity in the Apstar satellite in China in 1997 and later sold its stake in the Nasdaq-listed Kopin Corporation in 1999 (TelecomAsia, Information Disclosure Reports (Form 56-1), 1999). Following this direction, CP's interest in telecommunications was shifted to focus mainly on domestic operations.

After three years of debt restructure that included the sales of subsidiaries and the conversion of debt into twenty-four per cent equity of the group’s largest debtor, Kreditanstalt fur Wiederaubau (KFW), TelecomAsia or True, expanded its activities from fixed-line telephony to include mobile telephone services in 2001. Since then, True focused on expanding its Internet/broadband operations, as well as other content related areas such as web development solutions and online games (<www.truecorp.co.th>, March 2005) With most of the network provision reaching its saturation in Thailand, True's future expansion strategy would be based more on the software- and application-related services (Pavida, 2006).

CP's strategy in telecommunication resembled that in the food sectors. It confirmed the group's push toward more value-added and downstream activities in each line of its businesses. These moves also reflected the group's consolidation and integration attempts to restructure its vast business empires into a more transparent and less complex structure. However, CP's selection of its core industries did not mean that the group would divest from its non-core sectors. Apart from the changes that took place in the three core sectors, most of the group activities remained unchanged.

Table 4.2: Foreign Market Selection and Foreign Market Entry Strategy of CP's Post-Crisis International Activities

Business Group	Foreign market selection	Foreign market entry strategy
Agri-business and foods	Indonesia, Hong Kong, Taiwan, Malaysia, india, Singapore, China, Turkey, Vietnam, Cambodia, Myanmar, England, Russia, Laos, Philippines	Exporting, joint venture, and wholly-own
Marketing and distribution	Taiwan, China	franchise, joint venture, wholly-own
Telecommunication	China, Hong Kong	Joint venture

Source: Constructed by the author based on Pavida, 2001b, 2006, 2007, and CPF annual report 2007, 2008

The other key dynamics in CP’s post-crisis international expansion is the group's production flexibility. Since the crisis, a clearer direction emerged to enhance the CP Group's overall global efficiency in agribusiness productions. Instead of replicating its vertically integrated production chain in every country, CP appeared to change its strategy to focus more on using each production base for a specific role. For example, Thailand had been positioned as the group's “experiment centre” and main export base for processed and cooked meat, while China's majority of production sites targeted the local market, with some exports to Japan (Pavida, 2006). Japan remained one of CP's biggest markets, in addition to the EU. Of the 60,000 tonnes of Japan's chicken imports in the first half of 2003, Brazil ranked as the number one exporter (24,000 tonnes), followed by Thailand (18,000 tonnes), China (12,000 tonnes), and the United States (6,000 tonnes) (Phujadkarn Rai Duen, March 2005).

CP's flexibility in using different production bases around the region to supply export markets was more evident in aquaculture. CP's shrimp exports grew 300 per cent in 2004, thanks to its guarantee of 100 per cent traceability. CP guaranteed that it could trace every lot of its shrimp exports to every stage of production, heightening the level of the group's quality control. CP also claimed to be the "only company in the world that can offer this level of guarantee" (Pavida, 2006). CP's shrimp export bases were located in Malaysia, Indonesia, Vietnam, and India. Since the downturn of the shrimp industry in Taiwan in the

1980s, CP had been able to benefit from the globalization of shrimp production in Southeast and South Asia, spreading its investments to new export "stars" like Vietnam and India (Goss, Burch, and Rickson 2000).

In sum, the post-crisis dynamics of CP's international operations had been led by the group's changing focus from the production of lower value-added products, like animal feeds and frozen chicken meat, to the retailing and distribution phase of the broiler value chain, and the increased efficiency gained from division of responsibility among the group's overseas production bases. This strategic direction showed that CP had been in the process of integrating its vast agri-business operations into a complementary system. Rather than focusing separately in each market, CP appeared to make better use of its production bases by designating appropriate role for each one, making its global activities more coordinated. However, it is still too early to determine whether this strategy will be adapted throughout its overseas operations. The more obvious changes only are taking place in Thailand. Moreover, the division of responsibility among overseas production base did not always succeed. The group's attempt to establish a production base in the United States failed miserably and the group withdrew from all its U.S. operations in 2004, ending a five-year struggle to break into the white meat-dominated market of the United States (CPF Annual Report 2004). CP earlier attempted to use the U.S. production base to supply the white meat for domestic consumption, while using dark meat as raw material for processed food products for the Japanese market (Pavida, 2006). CP's failure in the United States suggested that the group had yet to acquire the skills needed to compete successfully in highly competitive markets. The difficulty the group faced in more mature markets limited the group's international expansions to developing economies in the region. In fact, CP's overseas activities were mostly concentrated in one market, China.

CHAPTER 5

DISCUSSION AND CONCLUSION

5.1 Introduction

This is the final chapter of this thesis. It presents overall the findings and summary of the study, conclusion and implication, recommendation, limitation, and direction for future research.

5.2 Finding

The general objective of this study is to understand and examine the internationalization process of Thai multinational by identifying the problem and challenges of this corporation in streamlining its expansion processes. Therefore, the specific objectives were:

Objective of the Study 1:

Examine the motivations for Thai multinational that go for international markets. The discussion and summary are below;

In the pre-crisis period, domestic growth of CP has been led by both their quest for scale and scope economies in their industries, as well as by their network relationships with financial institutions, political forces, foreign technology, and social network suppliers. Although political connections were local-specific and were not much of use in other countries, CP's connections with financial sources as well as with foreign technology partners were crucial in their international expansion. In many cases, international projects were undertaken with the same partners with whom they had worked in Thailand. Moreover, the experience and skills of working in a developing-country environment helped facilitate their understanding of other developing country markets (Pavida and Zeithaml 1998).

In the post-crisis period, like many other companies in Thailand, CP's pre-crisis and highly leveraged growth in its domestic and overseas subsidiaries led to serious financial difficulty in the years following the crisis. In 1998, the group reported a total dept of US$ 1.2 billion (The Nation, 28 July 1998). This forced the group to undertake many critical restructuring.

Although both industry-specific technological skills and generic networking capabilities remained crucial, their nature appeared to be different in the pre-crisis and post-crisis periods. To cultivate their industry-specific advantage, CP extended its focus from production to higher-value activities in their value chain and CP emphasized brand creation and downstream integration into retailing. The firms' post-crisis focus on network relationship differed in nature rather than in kind.

The emphasis was placed more on cultivating links with foreign partners who could strength their industry-specific competitive advantage. The nature of financial networks also changed for the firm. The group turned to the capital market as an additional source of funding. In order to reduce their dependence on bank loans, clear attempts were made to attract institutional investors. The nature of third type of networks-political connections, especially with host country governments, similarly underwent some changes. Then, CP tried to increase the transparency of their relationships with host governments through formal channels, such as MOU cooperation agreements with the provincial government of Queensland and the state of California.

Table 5.1: CP's Competitive Advantage Pre- and Post- Crisis

Pre-crisis international expansion		**Post-crisis international expansion**	
Technological capabilities	**Networking capabilities**	**Technological capabilities**	**Networking capabilities**
• Scale and scope in agribusiness. • Production process capabilities (agribusiness)	• Political connections. • Connection with other business and financial institute. • Relationships with foreign partners. • Ethnic Chinese	• Brand creation • More Value-added products • Integration into downstream activities. • Global integration of production	• More transparent partnership with foreign technology partners and host country government.

	ties.	facilities.	

Source: Pavida, 2007

Objective of the Study 2:

Assess the foreign market entry strategy by Thai multinational. The discussion and summary are below;

CP's foreign market entry strategy is not change to much after the crisis, then the group still following its strategy.

There are three type of foreign market entry strategy is mostly use within the group are: (Annez et al., 1998)

1. Business cooperation: By setting up business cooperation, the company used local facilities with CP providing know-how in producing products. After that CP bought back finished goods. In this way, the company will enter into contract with the local producers or farmers, for example contract farming.
2. Joint venture: join venture with a local company or the host government, and there will be joint ownership. For example, during pre-crisis a joint venture with the Netherlands-based SHV Holdings to set up Makro, a warehouse supermarket in 1988. (Pavida 2001a)

3. Wholly owned subsidiary: for example, The Aquaculture business in Philippines, the company directly holds 100% in Charoen Pokphand Foods Philippines Corporation (CPFP), which set up in 2007. (CPF annual report 2008)

For agricultural products CP normally prefers to set up a wholly owned subsidiary if there is no regulation against this kind of investment. It has learned from experience that the wholly owned subsidiary will create the fewest problems in doing business as it offers full control.

In addition, for franchise strategy mostly the group use in the distribution and retailing industry, for example, a franchise agreement for the convenience store 7-Eleven, Sunny's Supermarket, the group's own supermarket chain, and Lotus Super Center, the group's own chain of wholesale supermarket.

Objective of the Study 3:

Examine the international markets selection by Thai multinational. The discussion and summary are below;

CP Group's location of international expansion is more than 20 countries however, the post crisis the group changed direction of location. First in agri-business, during the pre-crisis the location of international expansion including twelve countries is Indonesia, Hong Kong, Taiwan, Malaysia, India, Singapore, China, Turkey, USA, Vietnam, Cambodia, and Myanmar. However, during the post crisis the group dropped and added the location of international expansion in some countries including CP (USA), Inc. sold all the company assets (previously held 99.5 percent of equity) in March 2004. (Pavida, 2001a) Then, the group also added the location of international expansion in some countries including The chilled production plant in England, the company invested in this business through its indirect 52% holding subsidiary, CP Foods (UK) Limited, the livestock business in Russia, the company invested in this business through its indirect 99.99% holding subsidiary, the livestock business in Lao People's Democratic Republic, the company invested in this business through its indirect 99.61% holding subsidiary, C.P. Laos Co.,Ltd, and the Aquaculture business in Philippines, the company directly holds 100% in Charoen Pokphand Foods Philippines Corporation (CPFP), which set up in 2007. (CPF annual report 2008) Currently, the group have the location of international expansion including fifteen countries is Indonesia, Hong Kong, Taiwan, Malaysia, India, Singapore, China, Turkey, Vietnam, Cambodia, Myanmar, England, Russia, Laos, Philippines. (Pavida, 2001b, 2006, 2007, and CPF annual report 2008) Second, in distribution and retailing industry the group is not change the location there are still in two countries are Taiwan and China. (Pavida, 2006)

Third, in Telecommunication during the pre-crisis the location of international expansion including three countries is China, USA, and Hong Kong but after the crisis the group dropped their business in USA by sold 15 percent (worth US$ 19 million) in Kopin subsidiary. (Pavida, 2001a)

5.3 Conclusions and Implications

This thesis consists of five chapters. The first chapter of this study provides some introductory information including background of the study. In this section, it explained about the internationalization process of developing countries, profile of company in this study- Charoen Pokphand Group (CP Group) and then Thai outward FDI. Finally, the problem statement, research question, objectives, scope, significance of the study and the study operations. The second chapter discussed the existing literatures on the research problem. This is identifying relevant information that may be relevant and useful in answering the research question. Consequently, the chapter is divided into five parts. The first part defined the definition of internationalization, the second part discussed the theories of internationalization process, the third part identified motives of internationalization, forth part discussed about foreign market selection, and finally, the last part discussed about foreign market entry strategy. The third chapter presents the methodology used in the study, with some explanations of the common methodological approaches that are useful when conducting a research.

In each section presented, the choices for this thesis are discussed and justified. The fourth chapter reported the analysis and finding of the study of internationalization process of Thai multinational, namely CP Group which specific focus on motives of internationalization, foreign market entry strategy, and foreign market selection. It is also focus on the pre- and post-crisis of international activities of the firm, then to identifying on core business that is agriculture, distribution and retailing, and telecommunication. Finally, in this chapter it presents the overall the findings and summary of the study, conclusion and implication, limitation, and direction for future research.

The implication on the MNCs literature with given all the diverse forms and strategies of multinationals that are emerging from variety of economies, it is appropriate to question some inherent suggestion implied within the body of literature on ‘conventional’ multinationals. In this study resources that can be considered a firm’s ownership advantages could be derived from less-tangible and non-business factors such as social and political networks.

5.4 Limitations

This study attempts to study the internationalization process of Thai multinational, it has inevitably been hindered by several weaknesses. Firstly, there are limit of resources, and difficult to access information. Some web site of the firm for resource is constantly under-construction. A second limitation is the lack of time because the study needs to be completed in four and half month only. Finally, the previous studies on the internationalization process of Thai multinational are very limited.

5.3 Future Research

The scope of the study is limited to the internationalization process of Thai multinational. However, it is recommended that further research should be carried out to fortify existing knowledge on the subject matter:

1) A more comprehensive that study should be carried out in other countries to identify the firm's factor influence on entry strategy, trends and patterns of internationalization. This is to identify the similarity and difference which may lead to new insights in the international business management and strategies.
2) Because this study focused on core business (agri-business, distribution and retailing, and telecommunication) of the firm only, a comprehensive study of firm should be covering all of business group in international activities.
3) To explore further on networking capabilities would still be applicable in a more demanding environment of increasing market liberalization and global competition.

4) A more focus on how the firms re-structure of the strategy and survive of business during financial crisis.
5) To further explore between Asia economic crisis and US economic meltdown in how long it impact on the firm in international expansion
6) An in-depth study of internationalization approach of firm in service industry is recommended.
7) A more comprehensive research is needed that will involve more types of enterprise. This study only researched on one firm.
8) The environment conditions of the firm should be considerate in the future study.

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Appendix 1: Net Flows of Thai OFDI Classified by Country (percentage)

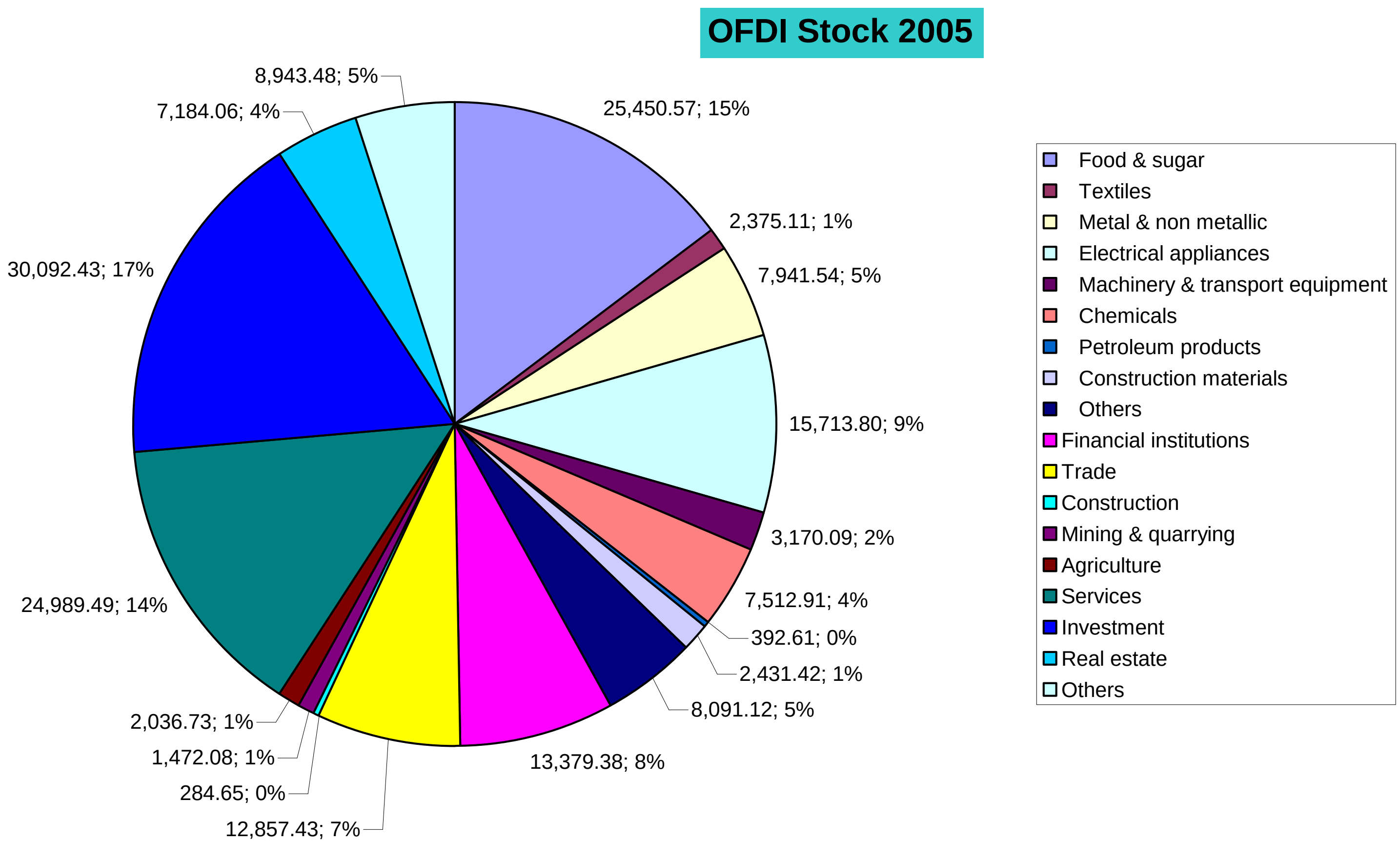
Countries	1970-79	1980-89	1990-97	1998	1999	2000	2001	2002	2003	2004	2005	2006
Japan	0.0	4.1	0.3	-0.3	0.6	3.3	-0.4	2.1	1.6	0.3	0.7	0.2
United States	58.8	33.3	42.4	14.0	-2.8	-158.4	1.5	21.9	9.6	0.3	6.8	12.7
EU 15	0.0	0.2	3.3	21.2	8.0	-11.0	14.2	-16.4	7.3	-0.5	0.9	3.9
Germany	0.0	0.0	0.0	2.7	0.0	-0.2	13.6	-14.8	0.1	-0.4	-0.2	0.2
United Kingdom	0.0	0.1	0.5	-11.9	4.1	-8.6	1.5	-1.1	2.2	2.3	0.2	2.9
Ireland	0.0	0.0	0.0	22.0	3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ASEAN[2]	1.5	24.3	16.9	-15.8	68.1	54.2	58.3	36.0	45.8	44.8	79.6	55.6
Indonesia	0.0	7.7	5.0	-1.6	0.0	6.6	0.8	2.5	4.1	4.9	1.9	2.2
Malaysia	0.0	0.3	0.5	0.3	0.0	3.0	0.9	-0.8	0.8	0.4	3.8	-2.5
Philippines	0.0	0.0	0.0	7.7	1.5	0.0	-11.0	-2.0	7.4	7.9	2.2	0.6
Singapore	1.5	15.8	11.0	-38.7	62.3	14.8	27.4	32.3	5.3	3.7	42.8	28.2
Cambodia	0.0	0.0	0.0	1.3	0.9	3.2	1.0	-0.3	0.5	0.6	1.3	5.2
Laos	0.0	0.4	0.3	0.1	0.1	2.7	-8.1	0.3	0.4	0.3	-2.1	-0.5
Myanmar	0.0	0.0	0.0	1.8	0.9	1.9	40.1	-0.1	22.4	18.0	19.6	15.2
Vietnam	0.0	0.0	0.0	13.1	2.5	22.0	7.2	4.1	5.0	9.0	10.0	7.2
Hong Kong	36.8	40.2	36.0	47.9	9.0	58.0	4.1	8.0	2.1	-5.8	5.9	4.3
Taiwan	0.0	0.1	0.0	0.0	2.2	19.3	1.8	0.5	-0.7	0.3	0.0	9.3
Korea, South	0.0	0.0	0.0	1.9	0.0	0.0	-0.9	0.6	0.3	0.4	0.0	-0.1
China	0.0	0.6	0.4	12.2	3.5	22.9	6.9	9.1	16.9	13.0	6.7	11.4
Canada	0.0	0.0	0.1	4.0	-0.6	0.2	0.0	0.2	0.1	0.3	0.4	1.7
Australia	0.0	0.1	0.0	1.3	0.1	1.1	0.1	1.0	1.0	0.8	0.4	2.4
Switzerland	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	3.4	5.6	-0.5	-0.6
Others	2.9	0.9	0.6	13.5	11.8	110.3	14.3	36.9	12.5	38.3	-0.3	-0.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note: 1/ Figures exclude investment in the banking sector.

2/ Prior to 1999, ASEAN does not include Cambodia, Laos, Myanmar and Vietnam.

Source: Bank of Thailand

Appendix 2: Stock of Thai OFDI Classified by Sector (2005)



Source: Bank of Thailand

Appendix 3: Profile of Selected Internationalizing Thai Enterprise

Table: Profile of Selected Internationalizing Thai Enterprise

Name	Industry	Drivers/Motives	Overseas geographical spread	Activity abroad	International Experience
Amata	Industrial estate developer	• Expansion of business abroad in light of opportunities • Build on experience of the company in industrial estate development • Growth prospects of host country	• Limited only in neighboring country (Vietnam)	Industrial estate developer	Fairly recent
Bangkok Bank	Banking	• Aspires to be a lending regional bank • Build banking network • Expansion to new markets • Growth cluster base • Investment opportunities in host countries	• Have 21 overseas activities. Mainly in Asia. Have operations in United Kingdom and the United State.	Mainly banking	Dates back to 1950s.
Charoen Pokphand	Agro-business and food industry	• Market-seeking • Support trade and distribution channels • Vision to be a global agri-food company • Exploit long term internationalization experience • Investment opportunities in host countries • Business networks and connection abroad	Extensive overseas investments in 20 countries. Mainly in Asia	Mainly agro-industry related activities. Have diversified into other activities abroad, such as in restaurants and shopping malls), particularly in China.	Since 1970s.
Loxley	Conglomer-ate	• Market-seeking • Expand business	Limited. Mainly in neighboring countries.	• Joint venture in manufacturing of soft drinks. • Trading activities	-----

Table: Profile of Selected Internationalizing Thai Enterprise (Continuous)

Name	Industry	Drivers/Motives	Overseas geographical spread	Activity abroad	International Experience
S&P	Food and restaurant	• Market—seeking • Better control of value chains • Expand market base • Increase brand awareness	Have 17 overseas branches. Mainly in the United Kingdom, Switzerland, Singapore and Taiwan Province of China.	Restaurant business	Since 1990
Saha Union	Conglomerate. Started as manufacturer of textiles and accessories	• Market-seeking (especially in energy and textiles activities) • Opportunistic investment (energy activities and international school) • Cost reduction especially in textile manufacturing in China • Access and secure raw material supplies • Strengthen marketing and distribution channels • Business networks connection	Extensive but most overseas activities concentrated in China	Expand into other activities abroad such as in energy and international schools operation (particularly in China). Have overseas investment in textiles activities and distribution business.	Started since 1972
Thai Union Food	Agro-business and food industry	• Market-seeking • Expansion of market presence • Strengthen distribution channels • Strive for growth in revenues and profits • Aspire to be in leadership position in seafood industry	Limited. Mainly in China and United State	Distribution of seafood products and holding company activities	Since the 1990s
Thai President Food	Food	• Market-seeking • Strength sales and distribution channels. • Exploit the skills and technological • Know-how in instant noodles making	Have several joint venture investments, mainly in Asia	• Manufacturing and selling instant noodles through joint ventures. • Marketing and distribution activities.	Since 1991

Table: Profile of Selected Internationalizing Thai Enterprise (Concluded)

Name	Industry	Drivers/Motives	Overseas geographical spread	Activity abroad	International Experience
Siam Cement Group	Conglomer-ate	• Market—seeking • Expand market base and need to be present in key markets • Regional integration factors • Aspire to be a regional industry leader • Strengthen trade and distribution channels • Better control of value channels • Sourcing for raw materials	Extensive but mainly in Asia with greater connection in ASEAN	Cement production and distribution. Chemical production and distribution. Production of building materials.	Visibly since 1990
PTT	Oil and gas	• Market-seeking • Access to natural resources • Strength distribution channels • Better control of value chain Z(e.g. control of petrol serve station).	Has significant investment overseas. In the area of natural gas and oil marketing it has overseas investment in ASEAN countries and in China. In the area of oil exploration and production, it has overseas activities in Asia and the Pacific, Middle East and Africa.	• Marketing and distribution • Exploration, development and production of oil and gas	More visibly in the early 2000s.

Source: Wee, K.H. (2007). Outward Foreign Direct Investment by Enterprises from Thailand.