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The changing dynamics of Thai multinationals after the Asian economic crisis

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Abstract

This paper investigates the dynamic of Thai multinationals after the Asian economic crisis through the analysis of FDI statistics and two in-depth case studies. The paper concludes that there was a shift in the dynamic of Thai multinationals' international expansion. While the pre-crisis international expansion relied more on networking capabilities rather than industry-specific technological skills, the post-crisis adjustments of Thai multinationals displayed a different strategy that placed much more emphasis on strengthening their industry-specific technological capabilities. In particular, Thai multinationals have placed more emphasis and commitment to the development of industry-specific technological capabilities, as well as transforming their personalised, relationship-based networks to more transparent and formal ties. The paper bears implications on the emerging multinational literature. Unlike the incremental nature of their predecessors from East Asia, the rapid rise of Thai multinationals before 1997 bypassed gradual technological process through the use of networking capabilities. However, the sustainability of networks-based competitive advantages will depend on its flexibility to change, as well as its complementary role toward industry-specific technological capabilities.
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Keywords: Third-world multinationals; Emerging multinationals; Multinational enterprise; International expansion; Thailand; Asian financial crisis; Networking capabilities

1. Introduction

The role of developing countries as recipients of foreign direct investment (FDI) has a long history dating back to the nineteenth century when Latin America and Asia were important host countries to European investors (Jones, 1996). On the contrary, these countries' role as outward

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investors has only been recognised just over the past two decades. Although the study of multinational enterprise (MNE) has been a fundamental component of the international business literature, the academic discourse on MNEs has overwhelmingly been drawn from firms originating in advanced economies of the US and Europe. Much less focus has been placed on multinationals from developing countries, despite their increasing prominence in the global economy.

The unbalanced empirical representation is equally striking within the stream of research on 'third-world multinationals'.[1] Pioneered by the 1983 publications of Lall and Wells, the 'third-world multinationals' literature has been predominantly based on firms from a limited set of developing countries, notably the more industrialised 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 multinationals relative to their East Asian 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 variables 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 transnationality, choices of diversification and international expansion strategy, and ethnic origins (Pangarkar, 2004). For example, it is often argued that the less developed economic and political institutions in Southeast Asia gave rise to business systems and organizations that relied heavily on networks and relationships and were often organised as large and diversified business groups (see Lim, 1996). On the contrary, the more market-oriented economies of East Asia, i.e. Hong Kong and Taiwan, generated multinationals that were more likely to be small and medium-sized enterprises (Li, 1994). Given these differences, some conclusions drawn mainly from East Asian multinationals may not be entirely applicable to other 'third-world multinationals'. Whether multinationals from different developing countries share a similar pattern of internationalisation, and whether their competitive advantages are similarly derived are among the questions that warrant an in-depth investigation.

Another aspect that the existing literature has yet to systematically address is the impact of the 1997 Asian economic crisis on the international expansion of multinationals from Asian developing countries. While various theories have been posited on the causes of the crisis, much less has been discussed on the impacts of the crisis on firms' behaviour and competitive positions. In the immediate aftermath of the crisis, many of the East and Southeast Asian multinationals withdrew from a variety of their overseas operations to focus on domestic survival. Although some time has passed and the trend toward recovery of outward FDI flows from the region was notable (UNCTAD, 2006), questions abound whether the post-crisis international expansion of

[1] Yeung (1994: 302–303) strongly criticised the term 'third-world multinationals' as 'imperialistic' and 'not a fruitful way to conceptualise the nature of international business'. Although the term has been associated with the established stream of 'third-world multinationals' literature, this paper uses the terms 'developing countries' or 'emerging markets' instead of 'third world'.

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multinationals from the emerging economies of East and Southeast Asia remains similar to their pre-crisis pattern. While impacts of institutional context on the early development of Asian firms have already been addressed (see, among others, Whitley, 1992, 1999; Lim, 1996; Mathews, 2002), research on Asian business is still in need of fresh insights reflecting the ongoing evolution of Asian firms, especially in the aftermath of the 1997 Asian economic crisis which saw Southeast Asia transformed toward more deregulation and liberalisation in many sectors (Yeung, 2007). Southeast Asian multinationals' reactions to ongoing changes and institutional challenges in the post-crisis era should therefore reflect their changing dynamics and evolution.

This paper attempts to address the issues raised above by probing the post-crisis international expansion of Thai multinationals. The paper intends to empirically analyse whether and how the nature of competitive advantage of Thai multinationals has changed after the Asian economic crisis struck the region in 1997, and what it means for the prospects of Thai multinationals in the global economy. It seeks to draw implications on the theories of multinationals from developing countries, particularly those from Asia, as well as on the theories of multinational enterprises in general. The paper is divided into six parts. Following this introduction is the theoretical background of the literature on 'third-world' multinationals. The third part looks at the historical trends of Thai outward FDI flows, from 1980 to 2005, to provide background for the study. The two cases are then introduced, followed by the comparison and discussion of their pre- and post-crisis international expansion and the conclusions.

2. Competitive advantages of 'third-world' MNES: a theoretical background

2.1. Competitive advantages derived from technological accumulation

Because the literature on 'third-world' multinationals grew out of the main body of theories of the MNE, it is therefore inevitable that this stream of literature has been led by a comparative approach that compares and contrasts developing-country multinationals to their counterparts from developed economies. The area that has been most compared is the nature of competitive advantages.[2] In general, it has been portrayed that the competitive advantages of conventional MNEs from developed economies are derived from advanced proprietary technology or other superior resources (Yeung, 1994). Without advantages in that domain, multinationals from developing countries are obliged to seek their competitive advantages from other sources.

The first wave of the literature, or those that emerged in the late 1970s and the early 1980s, argued that the competitive advantages of developing country multinationals were derived from their ability to reduce costs of imported technology through 'descaling' techniques such as reducing operation scale, substituting machinery with human labour, and replacing imported inputs with cheaper local ones. These cost advantages forced these firms to concentrate their operations in the low-cost market of other developing countries with a similar or poorer economic status. The sustainability of these firms was thought to be untenable as their cost advantages would erode over time once local firms caught up. Proponents of this view included Wells (1977, 1981, 1983), O'Brien (1980), Aggarwal (1984), Lecraw (1977, 1981), and Kumar (1982). This perspective was not shared across all its contemporaries, however. Lall (1983a,b) argued that the

[2] Although there are some differences in the priority of market internalisation for developed-and developing-country multinationals, the main reasons for internalisation remain generally similar (Wells, 1983). Likewise, the locational variables that attract developing-country MNEs to invest in other countries are by and large comparable to those that appeal to their counterparts from developed economies (Kumar, 1982).

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ownership advantages of multinationals from developing countries were derived from the knowledge of operation in less developed markets. These knowledge-based advantages could therefore be sustained in the long term through sufficient R&D efforts and continued learning and localisation of the adopted technology. Lall's conclusions formed the basis of what was to become the second wave of literature on 'third world multinationals' which re-emerged in the early 1990s.

The second-wave literature on third-world MNEs focused particularly on the learning-by-doing technological accumulation process. It was suggested that developing country multinationals built their competitive advantages from the incremental learning process that started with lower value-added activities and worked their way up the value chain. In other words, competitive advantages of developing-country firms were derived from their technological capabilities accumulated through the incremental learning process. Proponents of this view included Vernon-Wortzel and Wortzel (1988), Cantwell and Tolentino (1990), Tolentino (1993), Lecraw (1993), Ulgado et al. (1994), Dunning et al. (1997), and van Hoesel (1999). Despite their different views on the nature of competitive advantage, both groups shared a strong emphasis that, without their own proprietary technology, the competitive advantages of multinationals from developing countries lay in their ability to gradually adapt and accumulate technological skills from the technology originally imported from the more advanced economies.

Notwithstanding its valuable insights, the literature on developing-country multinationals is not without limitations. Criticisms of the literature focused on three aspects. First, the existing literature placed an emphasis on exploiting existing advantages at the expense of creating new ones (see Mathews, 2002; Beausang, 2003; UNCTAD, 2006). The precondition of having existing competitive advantages at the outset of internationalisation does not bode well with the emergence of multinationals from developing countries which generally suffered from an initial lack of resource endowment. Second, the existing literature offered a rather limited and deterministic interpretation of what constituted the competitive advantages of developing-country MNEs and of their development. With proprietary technology being the most important competitive advantage of MNEs from developed economies, the only way for developing country multinationals to emerge was therefore to accumulate their industry-specific technological skills and to work their way up from the lower value-added activities of the value chain. Only when those resources are sufficiently built up can these multinationals engage in assertive international expansions. This implication left out other types of advantages that could contribute to the development of emerging multinationals. The third drawback of the literature is that it is 'under-socialised'-viewing firm as detached from other social institutions and therefore perceiving a firm's competitive advantage as resulting only from its own resources within its own boundary.

2.2. Competitive advantages derived from networking capabilities

Incorporating the 'social embeddedness' concept (Granovetter, 1985, 1992, 1995) to explain the emergence of Thai multinationals, Pananond (2001a,b, 2002, 2004), Pananond and Zeithaml (1998), argued that a firm's network relationships with its partners could lead to crucial competitive advantages. While network relationships were important assets that could help the firm reduce costs and increase revenues, networking capabilities – the ability to draw on complementary resources of various partners and to turn them into the firm's own benefits – were necessary organisational skills that could serve as critical resources. The significance of networks to Asian multinationals has been explained from two different perspectives. First, the sociological or cultural view considered the reliance of business networks to be result of cultural traits in Asian societies, particularly among the Chinese. Proponents of this view argued that

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personal relationships or *guanxi* formed the basic mechanism of business networks in their domestic markets. When these Chinese or ethnic Chinese firms expanded in the region, these personal relationships served as competitive advantages as their common cultural background promoted trust and reduced transaction costs (see Limlingan, 1986, Redding, 1990, 1995, Kao, 1993; EAAU, 1995; Weidenbaum and Hughes, 1996; Yeung, 2004).

The second stream of literature sees Asian firms' reliance on network relationships as a response to its underdeveloped institutional context. Proponents of this view assert that institutional conditions in these countries lead to the reliance on network relationships to compensate for the insufficiency or weakness of institutional intermediaries (see, for example, Khanna and Palepu, 1999, 2000; Khanna et al., 2005). One key factor that influenced the institutional infrastructure of a country, and hence the development of its firms, is the timing of its industrialisation. According to the 'late industrialisation' view (see Amsden, 1989, 1995, 2001; Amsden and Hikino, 1993, 1994; Hikino and Amsden, 1994; Wade, 1990; van Hoesel, 1999), firms from countries that only entered the industrialisation process after the Second World War were obliged to develop an additional set of 'generic' skill that were not specific to any particular industry to compensate for their lack of proprietary technology. Following this view, Pananond (2001a,b, 2002, 2004), Pananond and Zeithaml (1998) argued that networking capabilities, or the firm's ability to draw on complementary resources of partners and to turn them to the firm's benefits, formed an equally critical part of the Thai multinationals' competitive advantages by serving as 'generic' skills that could be transferred across industries.

The view that network relationships contributed to the competitive advantages of multinationals from developing countries, especially those from Asia, has been widely acknowledged (see, for example, Yeung, 1998; Peng, 2003; Peng and Zhou, 2005; UNCTAD, 2006). In its global survey, UNCTAD (2006: 150–152) found that network and relationships were the second most important source of competitive advantage, following production process capabilities. More importantly, the survey revealed that three-quarters of the competitive advantages referred to by developing country multinationals were not derived from firm-specific ownership advantages like expertise and technology, but from the ability to harness and combine advantages from a number of sources, including network relationships, organisational structures and cultural affinity.

2.3. The changing nature of networking

Despite its many benefits, the reliance on network relationships does incur costs. Pananond (2001a, 2004) indicated that Thai multinationals' reliance on their network partners not only inhibited these firms' potential in sharpening their technological skills and international operation experience, but also limited their choice of locations to countries with similar institutional environment. In addition, the use of network relationships could be blamed as a partial cause for the 1997 Asian crisis. Informal networks among business and government exacerbated the lack of transparency in Asian developing countries, thus hampering the financial system and contributing to the cause of the crisis (Furman and Stiglitz, 1998). Enderwick (2005) further elaborated that an extensive dependence on networks among a selected group could incur additional transaction costs resulting from inefficiencies and political instability.

The next question then is whether these emerging multinationals can continue to rely on networking capabilities and network relationships throughout their development. Many scholars argued that the nature of network relationships evolved and transformed as their institutional environment changed. Lim (1996) contended that the reliance on network relationships in Asian economies was a temporary response to weak market mechanisms and hence would lessen once

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markets become further developed. Similarly, Peng (2003) suggested that the importance of networks would gradually decrease and incumbent firms would increasingly focus on creating capabilities as market-supporting institutions developed, resulting in a transition from network-based strategy to market-centred one. Extending Peng (2003)'s work, Peng and Zhou (2005) pointed out that when market institutions became more rule-based, resulting in less government control and intervention, the content and strength of network relationships transformed from strong ties to weak ties. In other words, as institutional transitions progressed toward market-based competition, strong ties – those that had been cultivated among smaller groups of people over a long period of time – would give way to weak ties — a broader set of new ties that are more wide-ranging in scope.

The 1997 Asian economic crisis was a wake-up call that led many countries to undertake a series of economic reform to strengthen their weak institutional intermediaries. The competitive environment in the region has been transformed through a variety of market liberalisations. Southeast Asian multinationals' reactions to ongoing changes and institutional challenges in the post-crisis era should therefore reflect whether there has been transformation in the nature of their competitive advantage. To theoretically and empirically examine the changing dynamic of Southeast Asian firms, this paper focused on post-crisis reactions of Thai multinationals. Thailand is chosen for this study for three reasons. First, it is among the countries that were the hardest hit from the 1997 Asian economic crisis. The drastic change in the business environment after the crisis should provide an appropriate research context to compare the pre- and post-crisis behaviour of Thai multinationals. Second, Thailand is one of the four newly industrialising 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 industrialised Singapore and Malaysia (UNCTAD, 2005). Third, the pattern of Thailand's outward investment has been rather different from that of the more researched East Asian Newly Industrialised 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 international expansion of Thai multinationals is different from their East Asian counterparts, and that the conclusions drawn mostly from East Asian experience may not always be entirely applicable to multinationals from other Asian countries. The need to address the intra-group diversity among multinationals from developing countries has been further stressed as more and more emerging countries become source of outward FDI (see Yeung, 1994; Mathews, 2002; Li, 2003; UNCTAD, 2006).

In order to analyse the international expansion of Thai multinationals in the years following the Asian crisis, this article employs the firm-level case study method of two leading Thai multinationals, the Charoen Pokphand (CP) and the Siam Cement groups. The case study method was selected for two reasons. First, the longitudinal and exploratory nature of the research questions befits the use of case study (Yin, 1994). Scholars in international business have increasingly called for more use of firm-level case studies on different aspects of multinational corporations (Buckley, 1988; Melin, 1992; Andersen, 1993; Yeung, 1998; Li, 1998, 2003). Second, given the deficiency of firm-level statistics of Thai multinationals, the case study method allows researchers to gather information from a variety of sources. The next part discusses the historical development of outward FDI from Thailand from 1980–2005 to provide a background to the two case studies.

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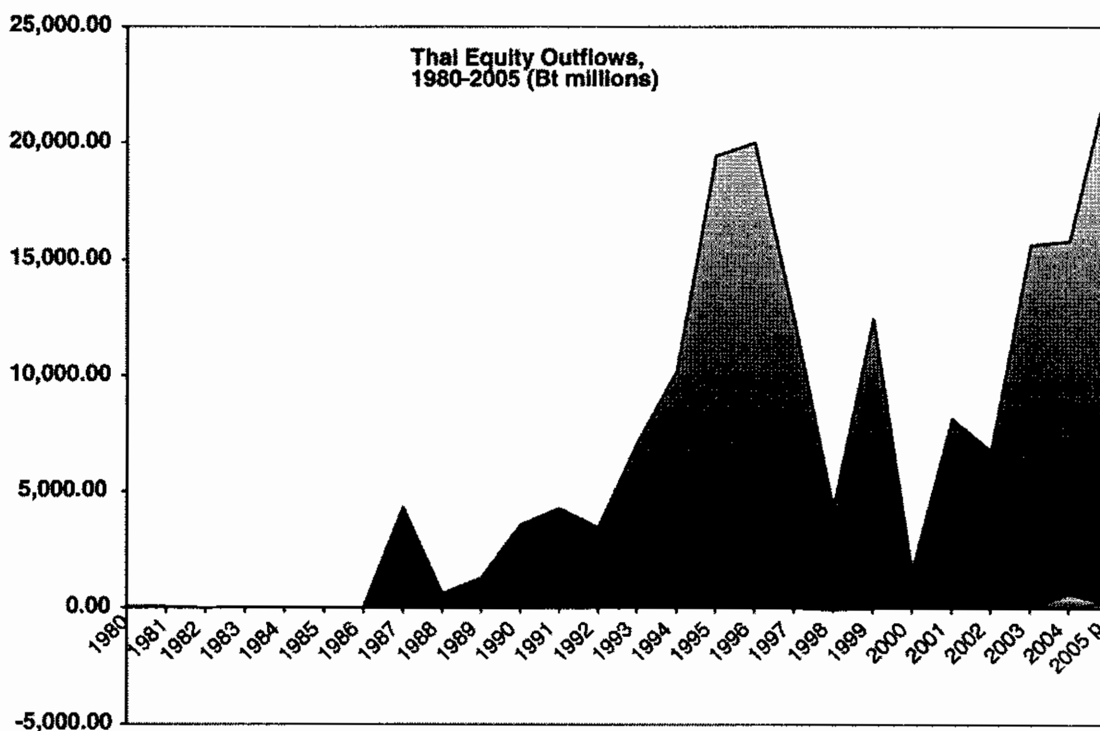
3. Thai foreign direct investment outflows, 1980–2005

As seen in Fig. 1, outward FDI from Thailand only became significant after 1986, partly as a result of the country's economic prosperity in the latter half of the 1980s (Vachratith, 1992). The slow rise of Thai outward FDI sped up remarkably from 1992 to 1997, as Thailand adopted a series of financial liberalisation policies. Two schemes that were most relevant to encouraging capital outflows were 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 (see Unger, 1998). The BIBF was intended to develop Bangkok into a regional financial centre by allowing local and foreign banks to engage in offshore banking activities. The suddenly easy access to cheaper loans in international markets lured many Thai firms into rapid expansions both at home and abroad. The outward FDI flows increased almost six fold in a four-year period of 1992 to 1996.

This rising trend took a sharp downturn after 1997. The Baht flotation and its subsequent depreciation increased the cost of foreign operations and almost doubled the amount of foreign-currency debts of Thai firms that had been borrowing heavily to finance their domestic and international expansions. The slowdown in the economy of many countries in the region following the crisis further aggravated the difficulty of domestic entrepreneurs. Many emerging Thai multinationals aborted or shelved their plans for international expansion activities, leading to a sharp drop of FDI outflows in the post-1997 period. Nonetheless, it appeared that many local firms regained their strength and confidence to re-embark on their overseas missions again since 2001. Although there was a slump during 2001–2002, the trend of OFDI from Thailand was on the rise again, particularly after 2002.

Although the aggregate statistics on outward FDI cannot shed much light on the dynamism of firms' international expansion, one implication can nonetheless be noted. The drastic change in



Source: Bank of Thailand

Fig. 1. Outward FDI flows, 1980–2005 (Bt million).

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direction of Thai outward FDI in the years before and after the crisis suggested that the Thai economy's institutional conditions do have an impact on Thai multinationals' international expansion strategy. While this point still needs to be explored further in the case studies, the statistics indicated in general that Thai multinationals responded correspondingly to the institutional environment of each period. While the pre-crisis expanding conditions saw Thai multinationals increase their international activities, the post-crisis challenges appeared to result in their reduced activities. A closer look at the two case studies should help attain clearer explanations on whether and how Thai multinationals have changed in the years following the Asian economic crisis.

4. Case studies: CP and Siam Cement

The Charoen Pokphand (CP) and the Siam Cement groups were chosen for the following reasons. First, they were among the most active Thai firms that had expanded abroad prior to the 1997 economic crisis and continued to do so in the post-crisis period. Given their prominent role as pioneering Thai multinationals, the available information on their activities were diverse enough to ensure research validity through the cross-verification of information from different sources. Second, these two firms were representatives of the most dominant and powerful form of business organization in the post-war Thailand — the conglomerate groups (Suehiro, 1989, 1992). Scholars who study this type of organisation have similarly indicated that network relationships served as crucial assets for these firms' development (see Ghemawat and Khanna, 1998; Khanna and Palepu, 1997, 1999, 2000; Khanna et al., 2005). As these two emerging multinationals continued their international expansion in the years following the crisis, comparing their pre- and post-crisis behaviour should reveal interesting insights into whether and how their international expansion dynamism changed. This part introduces the background and post-crisis adjustments of each group before the comparison and analysis of their pre- and post-crisis international expansion are discussed.

4.1. The CP group

4.1.1. Background

The Charoen Pokphand (CP) group is most well-known for its long-time investment in China. The group claims to be the 'first major foreign investor in China in 1979'. Beginning in 1921, the group has grown into a multinational conglomerate with subsidiaries in 20 countries, employing more than 100,000 people, and generating an estimated total group turnover over US$13 billion in 2005 (http://www.cpthailand.com, accessed in February 2007). With a modest start as a small shop selling vegetable seeds and other agricultural products, the CP group expanded into feed milling in 1954. Animal feed production remained the core activity of the group until today. A major milestone for CP was its joint venture in 1970 with Arbor Acres, a leading US poultry-breeding firm. The joint venture prompted the group to expand along the vertical integration of the broiler industry. 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, meat processing to retail distribution. The successful pattern of vertical integration was extended to 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. At its peak before the 1997, the group's operations were organized under nine different business groups: agro-industry; aquaculture; seeds, fertilizer and plant protection; international trading; marketing and distribution; real estate and land development; petrochemical; automotive and industrial products; and telecommunications (Corporate Thailand, 1996). Following the crisis, the group restructured its business into two main categories: production

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Table 1
CP's pre- and post-crisis overseas investment

Pre-crisis		Post-crisis		Changes
Type of business	Country	Type of business	Country	
Trading company	Japan, Korea, Hong Kong, Malaysia, Singapore, India, Myanmar, Chile, China, Belgium, USA, UAE, South Africa, Vietnam	Trading company	Japan, Korea, Hong Kong, Malaysia, Singapore, India, Myanmar, Chile, China, Belgium, USA, UAE, South Africa, Vietnam, Turkey, Germany, Switzerland, UK, France, Italy	More expansion to Europe
Agribusiness	Indonesia, Hong Kong, Taiwan, Malaysia, Singapore, China, Turkey, USA, Vietnam, Myanmar, Cambodia, India	Agribusiness	Indonesia, Hong Kong, Taiwan, Malaysia, Singapore, China, Turkey, Vietnam, Myanmar, Cambodia, India	Withdrew from USA
Aquaculture	India, Taiwan, China	Aquaculture	India, Taiwan, China, Malaysia, Vietnam	Expansion
Retailing	China	Retailing	China, Taiwan	Expansion
Automotive	China	Automotive	China	Expansion of plants and activities
Telecommunications	China, USA	Telecommunications	China	Withdrew from USA
Real estate	China	Real estate	China, Hong Kong	Reduced activities
Petrochemicals		Petrochemicals	China	Expansion

Source: Pananond (2001a), 56-1 Information Disclosure Reports, Annual Reports, various years.

and processing (agribusiness) and services (telecommunications, logistics and retailing). Despite its diverse activities, CP's international expansion was most concentrated in agribusiness. Table 1 summarises CP's activities overseas in the pre- and post-crisis period.

CP's international expansion was pioneered by animal feed production in Indonesia (1972), Hong Kong (1974), Singapore (1976), and Taiwan (1977). 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 a strong control over currency outflows during that time. After China opened its door in 1979, CP's international activities were mainly concentrated in China, with activities ranging from agribusiness, motorcycle manufacturing, aquaculture, downstream petrochemical and real-estate development, beer brewery, and telecommunications. CP's investment in China followed its formula which had been proven successful in Thailand and Indonesia. Agribusiness was used as a pioneering industry before diversifications into other industries were later undertaken. CP's investments in other countries were mainly concentrated on its core activity-the agribusiness industry.

4.1.2. Post-crisis adjustments

Like many other companies in Thailand, CP's pre-1997 rapid and highly leveraged growth in its domestic and overseas subsidiaries[3] led to serious financial difficulty in the years following the

[3] The debt to equity ratio of the group's major Hong Kong subsidiary, CP Pokphand (CPP), shot up from 0.69 in 1993 to 4.08 in 1997 (CPP Annual Report, various years).

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crisis. In 1998, the group reported a total debt of US$1.2 billion (The Nation, 28 July 1998). The difficulty forced the group to undertake many critical restructuring. The following five changes are among the most significant adjustments CP has undertaken in the years following the crisis. First, the group decided to streamline its vast activities by focusing on two core areas: production and processing of agribusiness and food industry; and services, including telecommunications, logistics and retailing. Within these selected areas, the group concentrated on adding value to their products through brand building activities and producing more value-added products. Despite its claims to focus on core activities, CP maintained its involvement in many industries that were unrelated to agribusiness however. The group continued with its activities in petrochemicals, automotive part production and real estate development. Second, the group placed a stronger emphasis on downstream activities of retailing and distribution both at home and in China. Although the group relinquished its hypermarket activities in Thailand, CP maintained its Lotus Supercenter operations in China on top of its operations of 7–11 convenience stores (Phujadkarn Rai Duen, February, 2000). The group's expansion into retailing also included the creation of its own outlet, CP Fresh Mart, to carry a broad range of the group's food products (Phujadkarn Rai Duen, March, 2005). Third, the group enhanced its overall global efficiency in agribusiness production through integration of the group's overseas production bases. Rather than focusing on separately producing for each domestic market, CP started to integrate their production bases by designating appropriate role for each one, making its global production activities more co-ordinated. For example, Thailand was set to be the production centre of cooked and processed meats, while China served as poultry production base for exports to Japan, and Turkey to the European Union.[4] The fourth change CP undertook was to shift its financing strategy from debt to equity through the use of capital market. CP tried to improve their image from a shady, family-owned conglomerate to a more professionally managed multinational by consolidating several of its subsidiaries in agro-industry into one to make its books more transparent to international investors. Fifth, the CP group increasingly made an effort to build formal co-operations and networks with host-country governments. In July 2004, the group signed a Memorandum of Understanding (MOU) with the provincial government of Queensland, Australia, to promote R&D co-operations in agribusiness technology as well as to expand markets for CP products in Australia. Later in October, a more extensive MOU was signed with the Californian state to promote co-operations in agribusiness, retailing, education services and entertainment (CP Group, 2004).

4.2. The Siam Cement group (SCC)

4.2.1. Background

Since its foundation in 1913, the Siam Cement group has grown to be among the largest industrial conglomerates not only in Thailand, but also in Southeast Asia. The Siam Cement group was one of the pioneering Thai multinationals that embarked on a rapid internationalisation process in the early 1990s. Starting from its first overseas investment in the US in 1991, the Siam Cement group had ambitious plans to become industrial leader in the Asia Pacific region. Twenty seven overseas investment projects were planned for Indochina, China, Indonesia and the Philippines during 1993–1997 (Pananond, 2001a,b). Before its 1998 restructure, Siam Cement was the parent company of more than 130 subsidiaries, employing more than 35,000 people in various industries spreading across nine business groups, namely cement and trading; construction

[4] Interview with Dr. Veeravat Kanchanadul, Senior Executive Vice President, CP Group, 16 February 2005.

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materials; iron and steel; ceramics; electrical and metal products; machinery, tire and auto accessories; petrochemicals; paper and container; and corporate finance and administration (Siam Cement Group, 1997). After its post-crisis restructuring, the group in 2007 consists of approximately 100 major companies in five major business groups: petrochemicals, paper and packaging, cement, building products, and distribution which included international trading. The group's consolidated turnover in 2005 was US$6.1 billion (www.siamcement.com, accessed in February 2007).

Siam Cement had its beginning in cement production, an industry in which it enjoyed monopolistic control from the very beginning until 1956, when the government finally allowed the establishment of a second cement manufacturer. Its initial diversifications were concentrated in construction material industries which used cement as raw materials. Diversification to non-cement sectors started in the 1970s, including iron and steel (1966), plastic and fibre glass (1970), pulp and paper (1976), auto accessories (1977), international trading (1978), ceramic tiles (1979), electrical products (1984), sanitary ware (1985), and petrochemicals (1986). These industries featured some common characteristics, including low competition level and generous government support (Ketkaewmaneerat, 1993).

Siam Cement had always been domestic-oriented until the early 1990s when the group's major export market for ceramic tiles – the US – was challenged by the termination of the Generalised System of Preferences (GSP), leading to the group's first overseas investment in Tennessee in 1991. This investment cost Siam Cement expensive lessons for international investments. Most importantly, the group realised that it was not yet ready for highly competitive markets like that of the US. Since then, Siam Cement shifted its focus to Southeast Asia. Priority was given especially to Indonesia, Philippines, China, Vietnam, Laos and Cambodia. From 1993 to 1997, Siam Cement announced a total of twenty-seven investment projects in those countries, covering a wide variety of industries, including ceramics, cement and trading, construction materials, petrochemicals, pulp and paper and machinery. The actual implementation of these projects was rather limited, however. Only twelve out of twenty-seven had been put into action when the economic crisis broke out in 1997. By 2001, only three more projects had progressed while the rest was either suspended or terminated. Table 2 summarises Siam Cement's pre- and post-crisis overseas activities.

Table 2
Siam Cement's pre- and post-crisis overseas activities

Pre-crisis		Post-crisis		Changes
Type of business	Country	Type of business	Country	
Ceramics	USA, Mexico, Indonesia, Philippines, China	Ceramics	Indonesia, Philippines	Reduced activities
Construction materials	Indonesia, China	Construction materials	Indonesia, Philippines, Cambodia, Laos, Vietnam, Myanmar, Malaysia	Withdrew from China and expansions in other countries
Trading company	Indonesia, Vietnam, Philippines, Myanmar, Cambodia	Trading company	Philippines, Laos, Singapore, Hong Kong, India, UAE, Bangladesh, Australia, China, Taiwan, USA	Expansion
Petrochemicals	Indonesia	Petrochemicals	Indonesia, Iran	Reduced activities in Indonesia and expansion in Iran
Pulp and paper	Philippines	Pulp and paper	Philippines, Vietnam	Expansion
Machinery	Philippines, China	Machinery	Philippines	Withdrew from China

Source: Pananond (2001a), Siam Cement Group (2003, 2005), 56-1 Information Disclosure Reports, Annual Reports, various years.

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4.2.2. Post-crisis adjustments

Similar to other Thai business groups, the Siam Cement group suffered from heavy financial burdens after 1997. At the end of September 1998, the group was faced with a total consolidated debt of US$5.2 billion, 23 percent of which was due within a year (Siam Cement Group, 1998). In the post-crisis period, the group undertook three important changes. First, the group took a bold step in restructuring its overall operations to focus only on core industries. This strategy resulted in the group focusing only on three sectors-cement, petrochemicals, and paper and packaging-and reducing its domestic and international involvement in all other sectors. The restructure also reflected a change in the group's priority. From growth-led orientation, the group became more concerned with profitability, leading to attempts to improve its profitability through both demand- and supply-side activities.[5] Value-adding activities such as product innovations and designs were undertaken to increase its product marketability and attractiveness, while organic expansions along with mergers and acquisitions were carried out to expand its scale economies and to extend its vertical integration in its core industries. Third, Siam Cement integrated its international activities to its overall strategy. Prior to 1997, Siam Cement's international expansion strategy was led by growth opportunities in various markets, resulting in a lack of integration of international activities and the group's overall efficiency (Pananond, 2001b). Although the group's market-seeking strategy was still practiced, Siam Cement's post-crisis international expansion strategy was also led by resource- and efficiency-seeking objectives to help reduce cost and increase the group's overall profitability. Examples included overseas investment in upstream activities in pulp production in the Philippines and upstream petrochemical activities in Iran (seehttp://www.siamcement.com, accessed in February 2007).

5. Comparison and analysis

5.1. Pre-crisis competitive advantages: scale, scope, production skills and networking capabilities

It cannot be denied that both CP's and Siam Cement'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 both groups were similarly derived from economies of scale and scope, as well as their production process capabilities. CP's scale and scope in the agribusiness industry made the group second to none in the Asian region. CP's complete vertical integration enabled the group to achieve scale economies in the agribusiness industry not only in Thailand, but also in countries where there were few modern big enterprises in agribusiness. The group's long experience in the agribusiness industry also contributed to its production process capabilities, enabling it to become the region's leader in animal feed production and poultry exporter. Similarly, Siam Cement's vertical integration in cement-based and non-cement industries enabled the group to build up its scale- and scope-advantages in the domestic market. Given its four-decade monopoly, Siam Cement was also able to hone its production process capabilities and to strengthen its distribution networks in construction material industries. With Southeast Asian markets still a few steps behind that of Thailand, Siam Cement was able to transfer these production capabilities to its overseas operations in Southeast Asia (Table 3).

It would be incomplete, however, to explain the pre-crisis competitive advantages of these two groups to be derived simply from industry-specific technological skills. As discussed earlier,

[5] Interview with Mr. Roongrote Rangsiyopash, Corporate Planning Director, 2 March 2005.

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Table 3
Comparison of CP's and Siam Cement's competitive advantages before and after the crisis

Company	Pre-crisis international expansion		Post-crisis international expansion	
	Technological capabilities	Networking capabilities	Technological capabilities	Networking capabilities
CP group	Scale and scope in agribusiness Production process capabilities (agribusiness)	Political connections. Connections with other businesses and financial institutions Relationships with foreign partners Ethnic Chinese ties	Brand creation More value-added products Integration into downstream activities Global integration of production facilities	More transparent partnerships with foreign technology partners and host-country government
Siam Cement group	Scale and scope in construction materials industries Production process capabilities (construction materials)	Alliances with leading regional firms/MNEs Strong connections with financial institutions	Focus on innovations Regional integration of production activities	Focus on technology partnership

generic networking capabilities equally contributed to the competitive advantages of these two Thai multinationals. Both groups benefited tremendously from four types of network relationships: close ties with domestic and international financial institutions; relationships with both home- and host-country governments; alliances with foreign technology partners; and social relationships based on ethnic ties. Starting with financial networks, both Siam Cement and CP enjoyed solid relationships with both domestic and international financial institutions. Siam Cement is closely linked to the Siam Commercial Bank (SCB) through the Crown Property Bureau (CPB).[6] Having both the CPB and the SCB on its side gave Siam Cement a formidable financial credibility, as the CPB itself was already one of the wealthiest capital groups in the country and SCB was among the country's four largest banks (see Ouyanont, 2006). CP's connections with local and international financial sources were no less impressive. The group enjoyed long-term relationships with Thailand's two other largest domestic banks, Bangkok Bank and Kasikorn Bank. 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 group's 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 and Siam Cement's relationships to the local powerful elite were equally extensive. While Siam Cement was closely associated with the country's top-level technocrats through the CPB connections, CP had been known for its connections with political parties as well as the military, which remained a significant source to reckon with in the Thai society as witnessed in the latest military coup in September 2006. While political connections were significant to these two firms' domestic growth, their relevance became limited when these two emerging multinationals internationalised. Finding the right local partners therefore became a necessary step in making sure that political networks in host countries were well cultivated. Siam Cement therefore placed a strong

[6] The Crown Property Bureau (CPB) holds a dominant stake in both the Siam Commercial Bank (SCB) and Siam Cement. The CPB is a special entity established in 1936, 4 years after Thailand changed from absolute to a constitutional monarchy. The CPB's portfolios is diverse, consisting of more than forty companies spanning a wide spectrum of business activities. Their largest and longest-term investment are concentrated in the Siam Cement group, SCB, and Deves Insurance (see Ouyanont, 2006).

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emphasis on selecting local partners who were equally strong in their selected host markets. CP, on the other hand, paid more attention to cultivating its own political networks in some host countries, particularly China. CP often claimed that its position in China was strong, thanks to the group's commitment to China from the very beginning of China's Open Door Policy. Brown (1998) asserted that the Chairman of the CP group's relations with Shanghai's mayor had assisted the group's various investments in Shanghai. Despite their different approaches, both CP and Siam Cement realised that having political connections, either directly or through local partners, was part of doing business in Asia.

The third source of crucial connections was those with foreign technology partners. Links with foreign technology partners allowed these Thai multinationals to speed up their technological accumulation process, and provided them with sufficient technological skills needed for regional investments. With its strong local position, both CP and Siam Cement had had no problem attracting leading foreign multinationals that were looking for local partners. Learning from these foreign partners was a major part that contributed to both group's technological capabilities. Siam Cement's foreign associates included numerous world leaders in different industries, including Dow Chemicals, Toyota Motor, Michelin, Lafarge and the Mitsubishi group. Likewise, CP's technological alliances included Arbor Acres in agribusiness, Orange in telecommunications (terminated), the Mitsubishi group in shrimp feeds, Oscar Mayer in meat processing, the Allianz group in insurance, as well as Tesco and Makro groups in warehouse retailing.

Fourth, social networks based on ethnic ties played some role in CP's pre-crisis international expansion, but not so much for Siam Cement. Although CP's general profile fits the stereotype of 'overseas Chinese' capitalism, it would be dangerously simplistic to characterise CP's investment 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 the mutual benefits that lay beneath the relationship between the CP group and the Chinese state apparatus that prompted CP's long-term interests in China (Pananond, 2006). Over a brief period during the early 1990s, these two firms were able to enhance their industry-specific advantages with these networking capabilities and rapidly expanded in neighbouring countries where market institutions were similarly weak. Both groups borrowed extensively to expand their operations both at home and in the region. Such leveraging and the accompanying high debt-equity ratios became disastrous after the Thai currency was floated in July 1997, triggering off the region-wide economic crisis. The difficult period that ensued both at home and in the region forced these two firms to undertake some changes in their international expansion strategy.

5.2. The changing nature of post-crisis competitive advantages: more value-added products and less personalised network relationships

It was not until the early 2000s that these two firms 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 realised that the pre-crisis rapid and opportunistic expansion was not sustainable in the long run, both firms 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 internationalisation.

Although both industry-specific technological skills and generic networking capabilities remained crucial, their nature appeared to be different in the pre- and post-crisis periods. To

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cultivate their industry-specific advantages, both CP and Siam Cement extended its focus from production to higher-value activities in their value chain. While CP emphasised brand creation and downstream integration into retailing, Siam Cement made innovation a new mandate for their organisation. In addition, both groups' post-crisis international expansion reflected an increased focus on efficiency creation for their overall operations. Although the search for new markets remained a key purpose for these firms' international expansion, efficiency-seeking investments through upstream or downstream expansions were given much more prominence. Although these attempts may not have clearly borne fruits, the shift in emphasis showed a marked difference from the pre-crisis international expansion.

Similarly, the two firms' post-crisis focus on network relationships 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 relationships changed in the post-crisis expansion. During the pre-crisis internationalisation 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 two Thai multinationals. In the post-crisis period, the emphasis was placed more on cultivating links with foreign partners who could strengthen their industry-specific competitive advantage. Siam Cement's increased joint ventures with the US-based Dow Chemical group were examples of post-crisis plans to enhance their competitive advantages in the petrochemical industry. The nature of financial networks also changed for these two groups. Because the 1997 crisis revealed weaknesses of the high leverage expansion strategy, both groups 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. For example, corporate restructuring and information disclosure received much more emphasis compared to the pre-crisis period. The nature of the third type of networks — political connections, especially with host-country governments, similarly underwent some changes. This point could be more clearly observed in the CP case, as their pre-crisis political connections with host governments were 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. To avoid being perceived as one of the Asian 'crony capitalists', both groups played down the aspect of political and social networks and stressed the formal links with host country authorities instead. Lastly, the ethnic Chinese origin that was perceived to be a source of competitive advantage for CP's investment in China appeared to lose its attractions when China became the world's most popular destination for foreign direct investment. When China first opened its door to foreign investors in 1979, few Western investors were ready to take the risk, making the ethnic Chinese investors from East and Southeast Asia the most important foreign investors. Common language and cultural background, along with longer business experience, certainly contributed to the advantages of these overseas Chinese investors, CP included. But as China increasingly attracted FDI from leading Western multinationals, their technological superiority became the attraction for the Chinese state and firms at the expense of common social background of the overseas Chinese investors.

The discussion above confirms that there is a changing dynamic of the international expansion of Thai multinationals in the years following the Asian economic crisis. During the early 1990s, Thai multinationals were able to internationalise rapidly, thanks to their ability to draw resources from different partners to complement their relatively weak industry-specific technological capabilities. The financial and economic difficulty following the 1997 crisis appeared to give these firms a lesson and altered their international expansion strategy. From the case studies, a more commitment to the development of industry-specific technological capabilities was observed. Strategies that had been

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adopted after 1997 included the selection of core industries and the reduction of non-related activities, the increased emphasis on profitability over growth, and the introduction of value-adding activities such as brand creation and service provision. In addition, the increasing focus on creating industry-specific technological skills is accompanied by the changing nature of their network relationships. The seemingly interpersonal relationships that were the feature of the pre-crisis networking capabilities gave way to the more formal and transparent ties. This finding is in accordance with the view that organisational response to institutional factors is a dynamic process that reflects changes in the institutional environment (Lim, 1996; Peng, 2003; Peng and Zhou, 2005). Lim (1996: 427) clearly stated that the institutional environment of Southeast Asia in the 1990s, characterised by market imperfection and weak institutions but rapid growth opportunities, encouraged and rewarded opportunistic, entrepreneurial, and risk-taking behaviours, rather than the productivity-enhancing behaviours of more mature players of the more developed economies. As these economies matured and their institutional environment further developed, the need to rely on network relationships will eventually give way to market-based relationships that are considered weak ties, as opposed to strong and personalised ties (Peng and Zhou, 2005).

The pre-crisis international expansion of these two Thai multinationals was a response to the rapidly growing economic environment of the early 1990s. The 1997 economic crisis, however, brought an abrupt end to such institutional conditions and indirectly expedited the institutional transformation in Thailand. From a market characterised by relatively low level of competition due to government protection, Thailand was pushed to rapidly liberalise its economy in the post-crisis years partly as obligations to international organisations like the IMF and WTO (Dixon, 2004). Moreover, the intensified domestic and global competition in the post-crisis period also altered the institutional environment for Thai multinationals, forcing them to improve their ability to operate and compete internationally. As a response to such institutional transformation, Thai multinationals shifted the dynamism of their international expansion. From a heavy reliance on personalised network relationships over technological capabilities in the pre-crisis years, the post-crisis resurgence of Thai multinationals is characterised by an increasing emphasis on developing their industry-specific technological capabilities and on transforming their personalised, relationship-based networks to more transparent and formal ties.

6. Conclusions

The findings from this study bears implications for the three levels of theories discussed earlier: on Thai multinationals; on 'third-world' multinationals; and on MNEs in general. First, this study confirmed that the international expansion of Thai multinationals reflected the transformation of their institutional conditions. When the institutional environment was characterised by market imperfection and weak intermediaries, strategies that relied on personalised networking might have been preferred. But when the competitive environment became less favourable, this type of strategy exposed its shortcomings. The evidence from this study suggests that the nature of networking may need to change as the firm develops. From simply drawing resources from network partners in the early stages of their international expansion, Thai multinationals need to cultivate networking skills that could enhance their overall competitive advantages in the long run. Future studies could explore further whether and which kind of networking capabilities would still be applicable in a more demanding environment of increasing market liberalisation and global competition. Second, this study implies that the emergence of 'third-world' multinationals may not be such a homogeneous phenomenon. The different institutional contexts from which multinationals of different origins should bear an impact on the type of competitive advantages these firms accumulate and the pattern

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of their corporate development (Van de Ven, 2004). This would confirm the need to expand the empirical base of studies on 'third-world' multinationals to have as diverse representations as possible, before conclusive views can be assumed on the development of multinationals from developing countries. Last, but by no way the least, is the implication on the MNE literature. Given all the diverse forms and strategies of multinationals that are emerging from a variety of economies, it is appropriate to question some inherent suggestions implied within the body of literature on 'conventional' multinationals. One implication from this study is that 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. The importance of these types of intangible resources is even more pronounced in societies that are still characterised by political and social nuances—a key feature among many developing countries.

This paper investigates the dynamic of Thai multinationals after the Asian economic crisis. It was found that there was a shift in the dynamic of Thai multinationals' international expansion. During the early 1990s, Thai multinationals internationalised rapidly, thanks to their ability to draw resources from different partners to compensate for their relatively weak industry-specific technological capabilities. The international expansion that was based largely on network relationships led to opportunistic decisions that brought negative financial consequences. Nonetheless, the resurgence of these firms' international expansion in the years following the 1997 crisis was characterised by some noticeable changes. In particular, Thai multinationals have placed more emphasis and commitment to the development of industry-specific technological capabilities, as well as transforming their personalised, relationship-based networks to more transparent and formal ties. Strategies that had been widely adopted included the selection of core industries and the reduction of non-related activities, the increased emphasis on profitability over growth, the introduction of value-adding activities such as brand building and product innovation, as well as the acquisition of technology from its providers. These changes clearly signify a changing dynamic of Thai multinationals after the Asian financial crisis.

Because the paper is based on only two case studies, it does not intend to claim generalisability to all the existing Thai multinationals. The results from the paper can lead to further discussion on the emergence of multinationals from developing countries, especially after the Asian economic crisis. The paper contributes to three sets of theories. First, the paper bears strong implications on the discussion of the nature of competitive advantage of Thai multinationals. The sustainability of networks-based competitive advantages will depend on its flexibility to change, as well as its complementary role toward industry-specific technological capabilities. The second implication is directed at the academic discourse on the emergence of MNEs from developing countries for its pre-determined assumptions that these different multinationals follow a similar approach in their overseas expansion. It is argued that the empirical representation of multinationals from developing countries should be broadened before conclusive assumptions can be drawn. Lastly, the result of this study bears indirect implication on what can be considered a firm's 'ownership advantage'. While the concept has traditionally been associated with efficiency-enhancing factors that can be accumulated within the border of the firm, this paper suggests that intangible and non-business factors, like social and political networks, need to be considered as potential ownership advantages when conventional MNEs venture beyond their familiar context.

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