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Foreign direct investment

CHAPTER 1

INTRODUCTION

Introduction

In this chapter a crisp idea would be provided on the role of the FDI in the developing nations and the impact of the same on the economy of the nations. After reviewing the literature thoroughly, the objectives of the research were framed. Also the background and the rationale behind the study would be provided.

Introduction to FDI

One of the driving forces in integrating the nations that are developing in the main stream of globalization is the foreign direct investment policies practiced by the nations. Though most of the foreign direct investment is focused only in the economies that are developed, the nations that are developing are the ones that have achieved tremendous gains in the 1990s with reference to the inward flows of FDI ranging from US\$ 34 billion in the year 1990 which constitutes over 17 percent of the inflows globally, to over US\$ 149 billion in the year 1997 which constitutes over 37 % of the inflows globally. But small portions of the countries that are developing in the Asian and the American regions like Brazil and china are the ones that have drawn in many recent FDI flows (Goldar and Banga, 2007). But most of the countries with low income have the per capita GDP of lesser than US\$ 1,000 quantities of Foreign direct investment. But there are some low income nations like Uganda, Bangladesh, Angola, and the republic of Tanzania that have obtained higher inflows of cash. Many of these nations also possess large FDI stocks with reference their GDP even though their GDP is lower. Such nations have shown a trend of receiving FDI that is resource seeking in terms of tourism and mining or they possess the processing zones for exports. They have also received some investments that are also market seeking. As many of the developing economies show interest towards receipt of FDI, it is natural that there exists a lot of competition between the governments which has stimulated them to channel more effort towards increasing the inflows of FDI recently (Aranda & Sauvart, 1996; Oman, 1998). Such a competition exists among the developing nations because FDI is considered by the governments of the nations as the major instrument for fostering competitiveness as well as growth.

Background

The Southeast Asian and the eastern economies that are developing are becoming a significant source of foreign direct investment in the world. Their share in the stock of O-FDI increased from 1 percent in the year 1985 to over 9 percent in the year 2000. More than 75 percent of the FDI in the developing nations are mostly contributed by the developing economies in the eastern and the south eastern region. Their contribution in the outward FDI of the world has arisen from over one percent to nearly 10 percent in the year 2000 (UNCTAD, various issues). The major portion of the contribution to foreign direct investment has been from the four nations that have become industrialized in the recent times- Hong Kong, Taiwan, Singapore and South Korea. Other important players here include Thailand and Malaysia. Most of the



outward FDI from that of the developing economies is from that of the developing nations and the FDI tends to remain in the same region. By the end of the year 1997, the nations Taiwan and South Korea contributed to over 50 percent of the outward FDI in the developing nations and the major portion of this is concentrated in the south, East and the Southeast Asia. In the case of Malaysia and Thailand also the same is true. The trend observed in the FDI in the developing nations in Asia could be due to the factors like the income levels of the host nation, the geography of the region and the cultural ties. One more speculation that exists regarding the determinants of the outward FDI is that there is a tendency towards preferences for the regions that are in close proximity and have low levels of income. Analysis of such determinants has far reaching implications for the development of Asia. The developing nations view foreign direct investment as a constructive contributor towards the economic growth of the nation. The fast growth observed in case of the newly industrialized economies would serve as an enormous benefit for other economies in Asia that are in the process of developing. This trend would stay if the O-FDI in the Asian region has a stronger influence and stays in the same position.

Rationale for the study

There are some Asian economies that should be pointed out particularly that have come up as significant investors. In the list, Hong Kong occupies the first position with Singapore in the next place and the list goes on with Taiwan, Korea and china in the year 2003. While considering the cumulative flows of FDI in the time period between 1995 to 2001 also the second position was occupied by Singapore amidst all the host nations like Myanmar, Brunei Darussalam, Thailand, Philippines and Vietnam (ASEAN Secretariat 2002). There was a rise in the Total OFDI stock of Singapore to nine fold in the time period of 1992 to 2003. This developmental process had the full support of the government which was instrumental in encouraging the outward foreign direct investment in varied ways and this paved way for the promotion of the global reach o the nation (Ellingsen, Likumahuwa and Nunnenkamp, 2006). There was so much focus laid on OFDI by the government after the recession period in the 1980s. The programme of international direct investment gained approval in the year 1988.the investors who made direct investments were provided with tax incentives and also supported financially for the evaluation of the opportunities in FDI (Okposin 1999).

A significant vehicle for the growth of the manufacturing sector of Malaysia is the outward foreign direct investment. There was a 19.8 % contribution of the manufacturing sector towards the GDP of the nation in the year 1987. This contribution escalated to 24.6 percent in the year 1990 and in the year 2000 this again increased to about 33.4 percent. There was a significant contribution in case of the exports of the nation and the exporting of the goods that are manufactured and the equipment and the transport material and other miscellaneous items together contributed towards 39.9 % of the overall exports. Overall FDI has provided very significant contribution towards the gross fixed capital formation in Malaysia. In the year 1997, the contribution made by FDI in the gross fixed capital formation came to around 15.1 % and in the year 1999 the figure rose to over 20 %. The stock contributed by FDI in the economy of Malaysia has increased in course of time and this was US dollar 7.4 billion in the year 1985.

Research aim

The aim of the study is to analyze the outward foreign direct investment in the Southeast Asian economies- Singapore and Malaysia

Research objectives

Considering the important position occupied by the two southeast Asian economies in the outward-foreign direct investment, the following research objectives were taken up for the study.

Hence the objectives of the study are as follows:

- To investigate the patterns and trends in the OFDI in the South east Asian economies Singapore and Malaysia
- To identify the key determinants of OFDI in Singapore and Malaysia with reference to the sectors of the nations



- To investigate the impact of outward foreign direct investment in the competitive advantage gained by the service sectors of Singapore and Malaysia in the global markets

Methodology

A series or cycle of methods that assist in the fulfilling of the objectives set for a study is the research methodology. It can also be referred as a tool using which the goals of the study are achieved. Many types of method are used in research and in this method we chose to follow the qualitative study and this methodology helps in the analysis of huge data. Huge chunks of data would be reviewed from the literature and there would also be case studies and live examples that are observed in firms (John Van Maanen, 1983). On the basis of the studies, the the patterns and trends in the OFDI in the South east Asian economies Singapore and Malaysia would be analyzed and key determinants of OFDI in Singapore and Malaysia with reference to the sectors of the above mentioned nations would also be listed out. The researcher would describe the trends that are existing at present with respect to the key determinants of outward-FDI. In this manner the redoing of the work that has already been done could be avoided while at the same time the interpretations of the study would also yield useful insights. A detailed review of literature would also provide us with the viewpoints of other researchers on the topic.

Conclusion

From examples and other live case studies, the researcher would try to answer the research questions on the basis of the data analysis. Hence a holistic insight would be gained on the problem of research at hand. A detailed review of the literature available would also yield background data on the topic at hand. On the basis of all this, the recommendations and conclusions and recommendations would also be provided for the study.

CHAPTER-2 REVIEW OF LITERATURE

Introduction

The concept of Foreign Direct investment (FDI) in the developing economies has become significant especially the enterprises in Asia are emerging as the major players. In the year 2004, over four fifth of the outward FDI from the developing nations has come from Asia as well as Oceania (UNCTAD, 2005). This phenomenon is indicative of the fact that the enterprises in Asia have become successful in the market places all over the globe and this has led to the elevation of their status from that of domestic players in the market to global leaders.

The matter of whether the developing nations can cooperate with other nations that are in the process of economic integration is a subject of great concern. Outward Foreign Direct investment from the developing nations is one of the measures that help in the indication of performance and efficiency of the



enterprises in the developing nations in the process of economic integration. It also helps in the elimination of border barriers that presents an opportunity for reorganization of the economic activity on many geographical scales. The enterprises in the developing nations are supposed to expand the business of their nations to the adjoining nations by organizing the distribution and production networks on region as well as sub region scales.

O-FDI and Home country measures

From the very beginning, outward foreign direct investment (FDI) has been an important phenomenon in the developed nations. The majority of the outward FDI in the world had its origin in the developed nations till the 1980s (World Investment Report 2005). But this trend changed in during the early 1990s and the developing nations especially those in Asia, have seen tremendous growth in their investments outward. The part played by the South East, South and the East in the outward FDI in the global scenario also rose rapidly to about 10 percent in 2004 from a share of less than 1 percent in the year 1980. The present situation is that the south contributes to over one third of all the FDI in the developing nations. One of the unique characteristic of the increasing outward FDI from the nations is that there is a minimal or total lack of policies that are targeted in order to enhance and direct the outward flows of FDIs from such host nations. On the contrary, in the developed nations, there are lots of HCMs- home country measures that are provided by the government in order to stimulate the flows of outward FDIs into the upcoming economies. The reason behind the offering of HCMs is that for development, FDI is good. However, there are failures in terms of market facilities and coordination aspects that hinder the investments and also elevate the cost of FDI. These HCMs are involved in the overcoming of such setbacks and encourages the flow of FDIs and thereby increases the benefits socially. Some of the HCMs that are practiced by the developing nations are – provision of financial as well as fiscal incentives in order to stimulate outward FDI; introduction of improvements in the economy in the recipient nations so that there would be sustained developments like the building of the infrastructure of the institution, development of the human resources, facilitating the evolution of a efficient business community in the context of human rights and facilitating improvements in the accessibility to market so that flow of exports from the developing nations could be improved and aiming in technology transfer to the host nations. Hence the HCMs have been significant drivers in the commuting of outward FDI to developing nations from the developed economies.

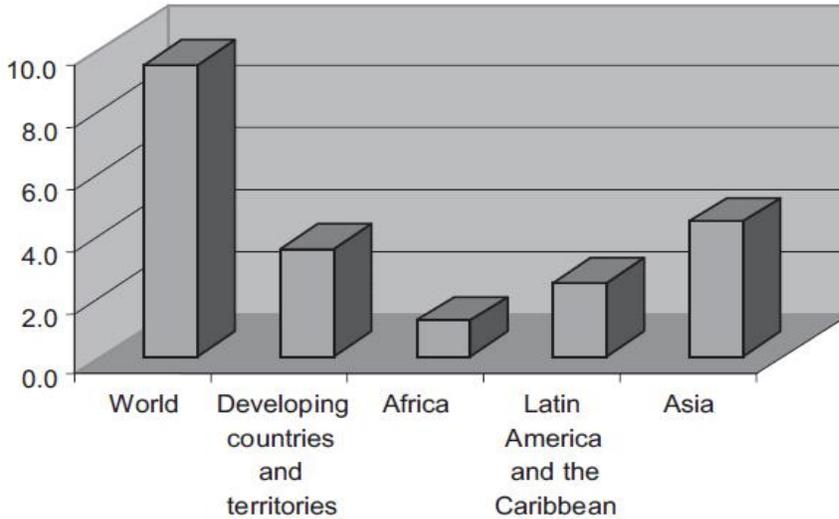
Trends in outward FDI from developing countries

The concept of outward FDI from the upcoming nations is not a well established phenomenon and the concept has originated from only certain nations. The share contributed by the developing nations in the outward FDI has varied between 4% to 18 % in the time period from the year 1980 to the year 2005 and it reached a share of 17 % in 2005 (WIR, 2006). Although the stock of the outward FDI has been increasing in leaps and bounds ever since the latter part of 1990s, more than 80 percent of the investments came from the top 10 largest nations. In the period from during the 1990s the flows of FDI from China and Hong Kong were enormous and it was as large as the flows from all the nations that are in the phase of development and that of the other transition as well as developing economies combined. In the year 1990, a stock of more than \$5 billion were reported by over 6 economies and by the year 2005, about 25 developing nations exceeded this threshold. In course of time, there has been a concentration in the geographical composition of the FDI in the context of the recipient and the donor nations. In a general sense, the bulk FDI comes continuously from the industrialized nations. Over 50 percent of the FDI in the year 2004 came from three major sources- The US, England and Luxembourg in the order (WIR, 2005). While the outflows of FDI from that of the EU decreased by over 25 percent to about to US\$ 280 billion in the year 2004, the investments abroad had been increased by the developing nations. In the regions of the developing nations, the region comprising Asia – the East, south and the south East Asia had the top average outward-FDI as a proportion of “gross fixed capital formation” during the time during 1994 to



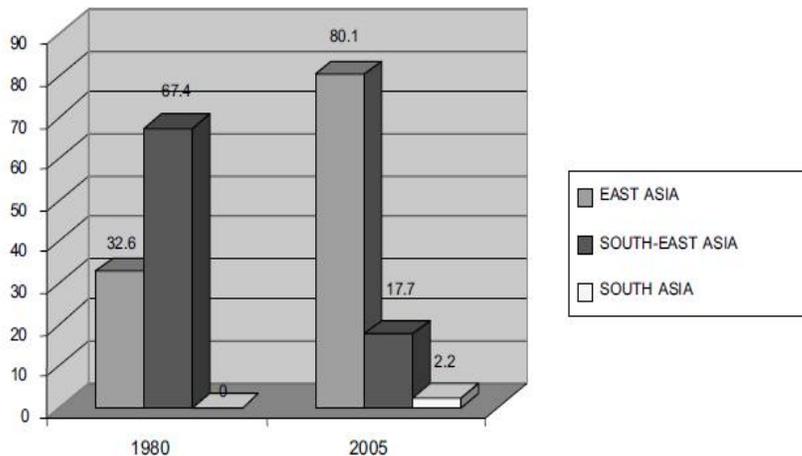
2004. The contribution of the Asian region in the global OFDI has risen from 1% to over 10% in the last two decades.

Figure 1. Average outward FDI as a percentage of gross fixed capital formation, 1994-2004



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Figure 2. Share of subregions in outward FDI, 1980 - 2005



Determinants of FDI

Overall policy framework

There are multiple elements that comprise the overall policy framework of FDI like the political and economic stability and the regulations involved in the governing of the operations and the entry of transnational corporations (TNCs). There is one major characteristic that is shared by these elements. The main aim of the above mentioned elements is that they should induce FDI, but there exists a question of whether they would be able to fulfill this aim. This is due to the fact that the total stability and openness are the prerequisites for FDI but only these factors are not sufficient to induce FDI. As an illustration, liberalizing the frameworks of FDI nationally is the dominant policy change of FDI in the developing economies (UNCTAD a, 1998). In this manner there are a lot of nations that have agreed on bi or



multilateral consensus that guarantees a liberal FDI treatment and its protection after it has entered and this increased tremendously in the 1990s. But the inflows of FDI have been small in many of the nations involved in liberalization. There is a tendency for the transnational corporations to take the liberal FDIs with ease and take the regimens of FDI to be the result of globalization. Hence liberalizing the regimens of FDI is characterized by returns that are diminishing. The developing nations that do not take part in the move to liberalization are to suffer the pessimistic impacts of the restricting policies on the inflows of FDI. But a regime that is liberal only little that is more than that enables a trans national corporation for investments in the host nations. It is an entirely separate matter whether there could be forthcoming of the FDI because of liberalization.

Economic factors

It is the economic determinants that are important in the determination of the motivations for taking up the FDI. There could be three type of FDI that are important. FDI that is resource seeking, FDI that is market seeking and FDI that is efficiency seeking. The abundance of the natural resources in the host nations is the motivation behind the resource seeking FDI. In the historical aspect, this type of FDI has gained importance and these remains as an appropriate source of FDI for many developing countries. On a global scale the importance of FDI that is resource seeking has significantly decreased. The contribution of the primary sector in out ward FDI stocks in the home nations was less than 5 percent in the beginning of the 1990s (UNCTAD a, 1998).

The comparative decrease in the FDI that is seeking resources may partially explain the patterns of FDI in nations like Saudi Arabia. The reason for this decline is not only due to the fact that only decreasing natural resources are responsible for lessening output. In the mean while, the FDI is not the favored mode of depending on the natural resources like oil. Compared to trade, the FDI was favored in the past but the nations that have large resources lacked the amount of capital that is required for the extraction of the resources or did not possess the sufficient technical skills. The concept of FDI does favor the non-equity arrangements and joint ventures with that of the foreign investors.

It is difficult to estimate the importance of the FDI seeking market. Because of the process of economic globalization, it is difficult to estimate the significance of the FDI that is market seeking. With reference to the FDI history in the developing nations, there are many studies to portray that the size and the rate of growth of the markets in the host nations are the significant determinants of FDI. But it remains to be seen if this is true in the process of globalization that is ongoing.

Facilitation of business

The ease with which business is done is the major factor contributing here. The efforts for promotion would go far from the business facilitation that has narrow definitions and this is inclusive of the tax and the fiscal incentives. The process of business facilitation is dealt by the investment promotion agencies.

- The measures of IPAs that are investment generating include the campaigns of FDI, the missions of FDI that are specific to the industry and this targets the specific transnational corporations. Specifically the transnational corporations show that there is a shift in the activities of the IPA from that of building an image to a unique generation of FDI. A survey that was done in the middle of the 1990s revealed that the major part of the IPAs made an attempt to attract the foreign investors (UNCTAD, 1998).
- The services of investment facilitation comprises of counseling, making the approval process fast, and helping in the provision of the permits. Such services are provided by the one stop shops.
- After investment services that are associated with every day operational matters are offered only for the investors who are established.



- On the background of most of the measures, the government wishes to perform even more with reference to the policies that are pro-active provided that the liberalization of FDI suffers returns that are diminishing. But the trend is on the policy convergence and practices not with the liberalization of the FDI but in business facilitation. This would stimulate the governments to compete for FDI by offer of the incentives for tax and subsidies outright.

Growth effects of FDI

For the accomplishment of a sustained development the FDI is an integral element. Even the earlier criticisms towards transnational corporations like the UNCTAD expect that FDI should provide a strong stimulus to the growth of the income in the host nations than the other capital inflow types. Particularly, after the financial crisis happening in Asia as well as Latin America, the best option for the developing nations is to depend primarily on the FDI so that the national savings could be supplemented by means of capital inflows and this could lead to the promotion of the economic growth. Nunnenkamp (2002) argue that “FDI is perceived superior to other types of capital inflows for several reasons: In contrast to foreign lenders and portfolio investors, foreign direct investors, typically, have a longer-term perspective when engaging in a host country. Hence, FDI inflows are less volatile and easier to sustain at times of crisis. While debt inflows may finance consumption rather than investment in the host country, FDI is more likely to be used productively. FDI is expected to have relatively strong effects on economic growth, as FDI provides for more than just capital. FDI offers access to internationally available technologies and management know-how, and may render it easier to penetrate world markets. The risk-sharing properties of FDI are undisputed. This suggests that FDI, indeed, is the appropriate form of external financing for developing countries, which have less capacity than highly developed economies to absorb external shocks. Likewise, the evidence supports the predominant view that FDI is more stable than other types of capital inflows. The volatility of different capital inflow items is compared by taking the coefficient of variation (standard deviation divided by mean) as a measure of volatility. FDI clearly turns out to be the most stable item. Moreover, the volatility of FDI remained exceptionally low in the 1990s, when several emerging economies were hit by financial crises”.

The theory of FDI

There has been an increased interest in FDI from the side of the policy makers and the economists. There is an increasing importance on the economy of the developed and the developing nations and this could be the reason behind the increasing interest of the FDI from that of the economists and the policy makers. The world investment report released in the year 1999 has stated that in the last decade, there has been a rapid growth in the global output and the global sales and this growth exceeds that of the whole GDP of the world and the exports globally. Hence the sale of the abroad affiliates are much greater than that of the total exports of the world globally and this implies that the companies use FDI tremendously much more than they use the exports in order to serve the foreign markets. Also there has been a representation of 11 percent of the inward flow of the FDI in the Gross fixed formation of the capital (UNCTAD, 2000). This shows the increasing significance of the FDI on the growth of the economy. Considering the multifaceted attributes of the FDI, there has been an involvement of a wide range of economists in the research on FDI. The trade economists have been involved for the close association that exists between FDI and trade and the improvement of the economy and the growth economists have been involved in researching the effect of FDI on the host nation and regional economists deal with the implications of FDI on RIAs. The industrial economists are concerned with the impact of the FDI on the restructuring of the industries.

The OLI framework

This is the traditional theory that exists on FDI and it makes an attempt to provide an explanation for the question- why do firms look out for abroad production instead of preferring to serve the markets by



exporting simply. Also this question is relevant considering that there is an increased cost experienced by the multinational concerns due to increases in abroad productions. This is due to the costs incurred because of placing the personnel in the foreign nations, the costs of communication that includes the call costs, the expenses due to the travel of the executives, the time costs and the losses due to the delay of the mails. Additional problems like the differences in the culture and language, local taxes, regulations and laws of the government, the costs involved due to staying out of the domestic networks are also faced by doing the production abroad. There are also other sources of risks like the risk due to the changes in the exchange rates and the expropriation by the host nation.

Dunning (1977, 1981) has introduced one theoretical approach called as the “OLI framework” and these theory states that the FDI is determined due to the Location, ownership and the internalization advantages which is held by the MNC over the foreign produces. At situations where such advantages outweigh the costs and risks that are mentioned earlier, FDI arises. Ownership advantage is nothing but a product or a process of production the access to which is denied to other firms like patent, trade secret or blue print and this can even be advantages like the reputation gained for quality. The concept of location advantage comes from that of the foreign market directly like the fewer prices or the access to the consumers combined with that of the barriers in trade or the costs involved in transportation and this would make the FDI more profitable than the costs involved in exports. Next comes the internalization advantage which is more of a theoretical concept that tries to explain why we could not practice licensing. It can be derived from the interest of the firm in the maintenance of its knowledge assets like the workers who are skilled in the technology possessed by the firm internally. Because of this, defection could be avoided once the owner of the license comprehends the technology and he can subsequently set up his own firm which would compete with an MNC. Asymmetry existing in information can also trigger the MNCs to go in for foreign production instead of licensing like improved knowledge on the domestic market by the owner of the license. The fear that there is direct production to substitute in a market environment that is selling highly would act as an incentive for the license owner in order to underplay the significant capacity for absorption in a market. Also there are lots of advantages that could be derived from reducing the costs of transaction like assurance of quality, contracting that arises by licensing.

The “New Theory of FDI”

The concept of the ownership as well as the location advantage is dealt by the “New theory of FDI” and this theory treats the MNCs in equilibrium models and here they arise in an endogenous manner. Helpman (1984) as well as Helpman and Krugman (1985) in earlier literature are involved in the activities of the MNCs and they make an attempt to explain the concept of the intra-firm trade and this concept is an added constituent of the international trade. There are two assumptions on which the models are based. 1. There exists differentiation of products as well as economies of scale. 2. There are inputs from that of the firm that shows the behavior of the public goods. Also there is an assumption that the costs involved in transportation are nil and there is a splitting of the production processes by the MNCs in a head quarter activity which is often based on capital or skill and the abroad production of the plant. In other words, there are differences in the factor proportions of the activities of the MNE and this is the rationale behind the rising of the multinational activity. This concept is recognized as the “vertical FDI” as there is a separation of the process of production of the firms so that the factor price differentials over the nations could be taken advantage of. Mauro(2000) states that “ The implications of these models for a potential derivation of the gravity model are that only differences in relative factor endowments across countries (often proxied by GDP per capita) matter for the location of MNCs abroad. This also implies



that the 'type' of FDI that can arise from the theory is limited to 'vertical' FDI, also called 'efficiency-seeking' FDI".

Impact of commercial changes

The impact of FDI on the adjustments in the trade policy is analyzed by Smith (1987) in a game theoretical way. The multinational companies act in a strategic manner in concentrated market places and they decide to invest and prefer it against the exports so that the entry of the domestic companies could be avoided in the sunk expenses. The effect of the tariff reduction is ambiguous and depending on the equilibrium present initially, there may also be increases in FDI and hence this reverses the "tariff-jumping" concept. The dynamic effect of the creation of the RIA is explained by Blonigen and Feenstra (1996) and in this case it might function as a threat that is protectionist against people who are not members and this would prompt the MNCs to expect establishing into a bloc so that high tariffs could be avoided when exporting into it. Donnenfeld (1998) also has arrived at similar results and he has constructed a model on the basis of games that are not co-operative and here the existence of the MNCs would lead to modifications in the optimized trade policies of the RIAs that are competing.

Impact of monetary integration

There has been a lot of debate regarding the issue of the variability of the exchange rate and there are also many studies to look into this aspect right since there was the collapse of the dollar in the year 1971. This led to the passage from a constant to a dynamic regime of exchange rate. These studies have compared the regimes of exchange rate (De Grauwe and Bellefroid (1986) or they have attempted to model the rate of exchange variability and the flow of trade in an explicit manner as done by Perée and Steinherr (1989) and Dell'Araccia (1998). Hence looking at the effect of the same on the exports and also the FDI is important. The economic reasoning behind the negative association between the variability of the exchange rate and the flow of trade arises from there are some costs of production incurred by the exporter in the currency used by him while the future outcomes are assessed in terms of foreign currencies. Hence alterations in the rate of exchange before or at the time of payment are hence a great loss for the exporter. Sometimes it may even turn out to be a great profit for the exporter. There are forward currency markets and they are used greatly. But these markets are not available for more than one year and in practical terms they do not exist at all in the developing nations. Also the existence of a commitment in the long term to the exports like that observed in case of licenses in export would function as "sunk costs not 'hedgeable' in the forward market". Such factors would lead to the assumption that a certain degree of aversion of risk against the variability in the rate of exchange and hence the trade could be favored by the stable rates of exchange. There is no proper solution that has been suggested by the existing experimental studies on this issue and the results arrived at range from a nil effect of the variability in the rate of exchange as shown by Gagnon (1993) to some of the findings that show a negative impact (De Grauwe and Bellefroid (1986), Dell'Araccia (1998), Perée and Steinherr (1989)).

FDI and exports: complements or substitutes?

When describing the activity of the MNCs of the host nations one major concern that arises is the labor market with reference to the wages or employment. One example could be cited as the outcry that arose due to the creation of the NAFTA where the workers in America perceived job threats from Mexicans. When it comes to employment, there are two ways by which the labor market could be affected. When a company opens a foreign production abroad and makes its products directly in the host market than exporting, the sector of export at home would become worse. Some of the domestic plants might also close down and as a result unemployment would rise. This would happen in case of the horizontal FDIs. Also on the other hand when the firm starts its production abroad, because of the cheap labor that is



available and the exports that could be taken home like in the case of a vertical FDI, the domestic workers might face problems again and the unskilled workers are the most affected.

In both of the cases, the effect of the intra firm trade should be taken into account by us like the in capital or the intermediate goods from that of the parent organization to the affiliate organization as this would trigger labor or demand in the host nation and hence it has the ability to offset the negative impact of the goods sector. But the net effect of this is very uncertain and at the theoretical level, we have a possibility to get some outcome on the basis of the particular parameterization. This aspect becomes an experimental matter as pointed out often in the literature (Baldwin, 1995b).

In the experimental literature there are two approaches that are undertaken until now in order to tackle this issue. There is a direct as well as an indirect approach. The direct approach arrives at the solution by the estimation of the simple equations for regressions of the labor demand in the parent firms of the home nation. The demand is represented as a function of affiliate net sales which acts as a proxy for their production. This makes it possible to use data on the activities of the foreign affiliates. This can again be consistent manner for US as well as Sweden. These two nations have such figures Blomström et al. (1997), Brainard and Riker (1997) and Svensson (1996). Hence the results of the studies show that there is a low substitution between the employment in the home countries and the affiliates. There is an indirect way to do empirical testing of the influence of the FDI on the employment and this is done by looking at the association between the FDI and the exports. Here, the objective is to look at whether the substituting FDI for exports is sufficient or if it confers indirect harm to the employment of the exporting sector at home. Graham (1996) and Brenton and Di Mauro (1999) have employed a methodology to estimate this. Two gravity equations are estimated, one for the FDI and the other for the exports and then there is the residuals of estimation that are regressed against one another. This method presumes that the influence of the common factors on the FDI is removed by means of gravity equations.

EMNEs

The revolution in digitizing has allowed for the advent of the trade in services that were non tradable in the previous times. When there was a fall in the costs of transaction in the internalization and coordination there was a slicing and dicing of the value chain and there was a global dispersion inclusive of the emerging markets. There was also more openness in the capital markets and integration than ever before and this made it easy for the EMNEs to hike the foreign equity capital as well as debt or for the listing of the shares in the stock exchanges of the foreign nations (Farrell, Folster, and Lund, 2008). Globalization in case of the investment banking, venture capital industries, private equity and also in case of law, accounting and the consultancy firms brought in services that belong to the world class to the doors of many of the EMNEs. The rise of a world labor market in case of the senior management also facilitated the EMNEs for staffing their upper ranks with executives who are internationally savvy (Michaels, Handfield-Jones, and Axelrod, 2001). Another short term advantage in case of the economies that are emerging like Russia and Brazil in whose reserves swelled because of the exports that are booming and the high prices of the commodities and surplus in trade that are large.

Firm-Specific Advantages

The advantages for the firm become difficult when they are applied in practice in circumstances where the firm does not possess an valuable or inimitable asset like the patents. A keen look at the success of the firms has many small as well as big advantages that are woven in complicated ways which would lead to the success of the firm in the market (Rivkin, 2000). It is sometimes not clear as to what is the reason behind the total success of the firms and what is the contribution of the FSAs for the managers and the owners. Technology, branding, capacity for creation, branding, marketing power, application of knowledge and the intangible assets are the factor considered to be at the core of the competencies.

Country specific advantages



There are many studies which provide illustrations of the country specific advantages that are leveraged internationally by the EMNEs- South Africa, Russia, Brazil EMNEs found advantage in the widely present natural resources of the nations. In India and China, the EMNEs also took advantage in the home market and also in the skilled as well as unskilled labor available in nations. The social network was taken advantage by the nations like china and Israel where there were highly talented scientists and engineers who migrated from Europe and brought advanced skills along with them into the social networks (Ramamurti, 2008).

Internationalisation by emergent MNEs

The strategies that are adopted by the latest multinational enterprises are not well researched (Bartlett and Ghoshal 2000). The theory of ownership, internalization location is based on the experiences gained by the international as well as the Anglo-American firms which are capable of finding the resources as well as the capabilities of the firms for internationalization. Dunning (1981; 1988) put forth the advantage possessed by the international companies based on the experiences they got from the foreign operations into 3 sources. By extension of the assets possessed by them in the abroad nations, they gained significant advantages like the branding facilities, getting technology expertise, obtaining of more fire power so that they can tackle the competition existing in the home nations which confers them a potential ownership advantage. Another good advantage that the nations have is that they can unite the activities over the global sectors with factor and resource costs that are different and this is termed as the location advantage possessed by them. The other sources of advantages got by building the economies of scale as well as internalizing activities that spread through the borders and this would be otherwise distributed between lot of firms and this is called as the internalisation advantage (Bonaglia et al, 2006).

Haier- market and asset seeking growth

The company was founded in the year 1984 and its original name was Qingdao Refrigerator factor in Qingdao. The first business of the company was the manufacturing of the refrigerators on the basis of the technology that was transferred from a German Company called Liebherr. The sale of white goods by Haier has grown by a volume of 70 percent on an average in the last twenty years and this has reached an amount of \$1.84 billion in 2004. The strategy of internalization of Haier. The strategy of internalization that was followed by Haier is an illustration of asset seeking as well as market seeking strategy that has been planned and executed carefully by means of FDI. The company focused initially on the region of South East Asia and has investments in the nations like Philippines, Malaysia and Indonesia in order to produce air conditioners and refrigerators (Liu and Li 2002). During the year 1999 Haier was the first firm in China in order to operate a facility that manufactures in Camden and South Carolina.

The environment existing in case of the international policy since the year 1990 and also the environment of the technology has profoundly changed. Compared to that of the earlier decades, the domestic as well as the foreign markets were more readily open in than the earlier years. This was due to the collapse in communism and the ending of the Uruguay Round Trade deal which led to the creation of the WTO (world trade organization). The privatisation as well as deregulation of the telecommunications industry in many of the nations with many changes being incorporated in the technological aspect and the explosion of the internet facilities changed the borders of the companies and the expense of conducting business over the borders. Such developments trigger the trends in outsourcing and the offshoring which results in the vertical disintegration of the firms and the collapsing of the barriers for the EMNEs (Evans and Wurster, 2000).

The outward FDI practiced by the companies in Singapore has a long history. Singapore is the major site of entry in the region of South East Asia and it has been in alignment with the world economy. In the year



1965, the country attained nationhood and there has been many strategies implemented for the development of Singapore in the rapidly increasing competition in the world scenario. In this context, the world economy has been the neighbor of Singapore and the main player in the globalization of the economic activities has been Singapore. The government of Singapore and the companies in Singapore has shown a lot of interest in the investments abroad. There are bright prospects for the OFDI in Singapore because of a collection of factors that are associated with each other and these are termed “push” and “pull” factors. The government of Singapore also plays an important part in the internalization of the indigenous firms. In the early stage of the 1990s, the country has become the center for regional co-ordination that can support the research and development activities and management functions.

In order to unite its competitiveness at the national level and also to facilitate the expansion of its capital nationally, a regionalization programme has been initiated by the government. By this program, the concerns in Singapore were encouraged in a explicit manner for abroad ventures.

In the year 1993, the senior Minister of Singapore made an announcement on the novel initiatives that are taken by the government for the generation of a big pool of local entrepreneurs and also for building up the external wing of the economy of Singapore. This thrust of Singapore at the national level is called as the “regionalization 2000”. Since the economic crisis in Asia in the year 1997-1998 the increasing importance of globalizing the enterprises in Singapore has been well recognized by the government.

Rising to the top as an established investor in the Outward-FDI is not a phenomenon that happened recently. In the 1950s some of the OFDIs happened and the spread of OFDI is being extended to more regions and countries. Since the majority of the OFDI actions in Singapore has its association with the large firms in Singapore, increasingly the SMEs are also involved in the abroad investments in the same manner as those of the large companies. This trend in the OFDI in case of SMEs in Singapore is achieved by means of joint ventures and the Greenfield actions. The mergers and the acquisitions are not well suited for this purpose because of the position of Singapore financially and its scale of operations. The competitive pressure that has led to less cost of production has had a major influence on the geographical destinations of the SMEs in Singapore. Within the Asian region, they try to invest and their focus is on the destinations with low cost like the Indonesia, Thailand, China, VietNam and Malaysia. Their orientation in the market is also specific in that the investments of SMEs happen abroad so that they can be used for production in the export markets or large local consumers.

“Singapore’s OFDI has always been concentrated in the Asian region, although the degree of concentration has decreased over time. More than 64 per cent of Singapore’s OFDI was in Asia. Throughout the 1990s, Asia remained the most favored host region, accounting for about 47 per cent-52 per cent of OFDI from Singapore. Within Asia, Malaysia had always been the single most important destination until 1997 when China emerged as the largest recipient of Singapore's OFDI. Singapore’s OFDI to Malaysia declined from 60 per cent in 1981 to 17 per cent in 1996 and 8 per cent in 2003. The decline was associated with the Government's 1993 regionalization drive. Emerging investment opportunities in China and other countries in the South-East Asian region were additional reasons, as was the Government’s involvement in the development of large industrial estates and infrastructural projects in Indonesia and China (e.g. China-Singapore Suzhou Industrial Park). Singapore’s OFDI to China and Indonesia grew significantly in 1993-2003. A large amount of Singapore’s OFDI to China was also channeled through Hong Kong” (United Nations, 2005).

According to The World Investment Report 2006 (WIPRO), TNCs obtained from Malaysia extended globally [WIR 2006, pp.103] and moreover the flows of outward and inward of Malaysia are converging. In 1990 to 2005, there is an increase from 23.4% to 36.5% of GDP with related to Inward FDI at the same time there is dramatic increase between 1990 to 2005 of OFDI which is from 6% to 34%. Malaysia, a FDI



destination which increased significantly from 1% in 1980 to 5% in 2005 compared to Hong Kong SAR (HKSAR) contributed 56% of total FDI. Earlier, Malaysia served as only foreign investment and for the diversification of the Malaysian economy in a mere 30 years which changed from agriculture to industrial based. About 70% of total FDI into the country was from four countries, which includes, Taiwan, Japan, the United States, Asean 4 (Philippines, Indonesia, Thailand, Singapore) (Economic Report, 2005). Since the 1960s Malaysia was being a recipient country and particularly between the years of 1970 to 1980, and only after 1990s, there is a new episode in development of Malaysian economy. However, there is a dearth of data related to outward foreign direct investment. Recent years, Malaysian government encouraged firms to start focusing on overseas investment rather than attracting inward FDI, thus there is a huge shift in the policy which in turn enhances the wishes for growth of an economy and upgrading of industries.

Hypothesis

1. The outward FDI developed by Singapore has adverse effects on the labor market
2. In Malaysia, major determinant of FDI is continuous encouragement of government policies

CHAPTER 3 RESEARCH METHODOLOGY

This section's main aim is to give a summary of the sketch of the research that the student intends to put into effect so as to examine the sample and style in the OFDI in the South East Asian economies Malaysia and Singapore and to recognize the main factor that determines the OFDI in Malaysia and Singapore which has reference with the nation sectors. The research also strives to examine the crash of the external overseas direct venture in the combative improvement gained by the tune up sectors of Malaysia and Singapore in the world markets. The particulars of the procedure of study adopted and the techniques adopted in the gathering of the data and analysis of data, complied by the student are also described in this chapter. The basis of the data collection is also described in this chapter.

Positivism and Interpretivism :

Interpretivism 's perception argues that the concept of truth is a "social construct" by itself or it can be said as when we take for granted or what we assume as the truth is built socially or brought by means of social constructions (Walsham 1995). Interpretivism created as "taking in to account at the features of positivism that it eliminates and the substitute it suggest. As it would include other non – positivist approach that is not interpretivist, the description is not deceive. Positivism has its ancestry in the "Ontological basis of the reality, means that the truth exists independent of the Observer" (Landry and Banville, 1992; Myers and Avison, 2002). This statement is criticized by the concept of Interpretivism.

Approach of Research

There are various varieties of research practices used to study a particular research crisis. By a thorough review of the literature (Bryman and Bell 2007), The inductive approach can be used in case of a qualitative study and in this case a hypothesis should be created with the help of the already available data. Hence this approach may not be suitable for the study presently. This approach may not lead to the arrangement of any deeper theories or insights, but only the empirical summaries could be prepared with this approach (Alvesson and Skoldberg 1994). The deductive approach is used for a quantitative study and in this case, the surrounding facts are mostly a assumption basis and thus this approach may not be useful for our study. In abductive approach the available empirical information is taken and for this study,



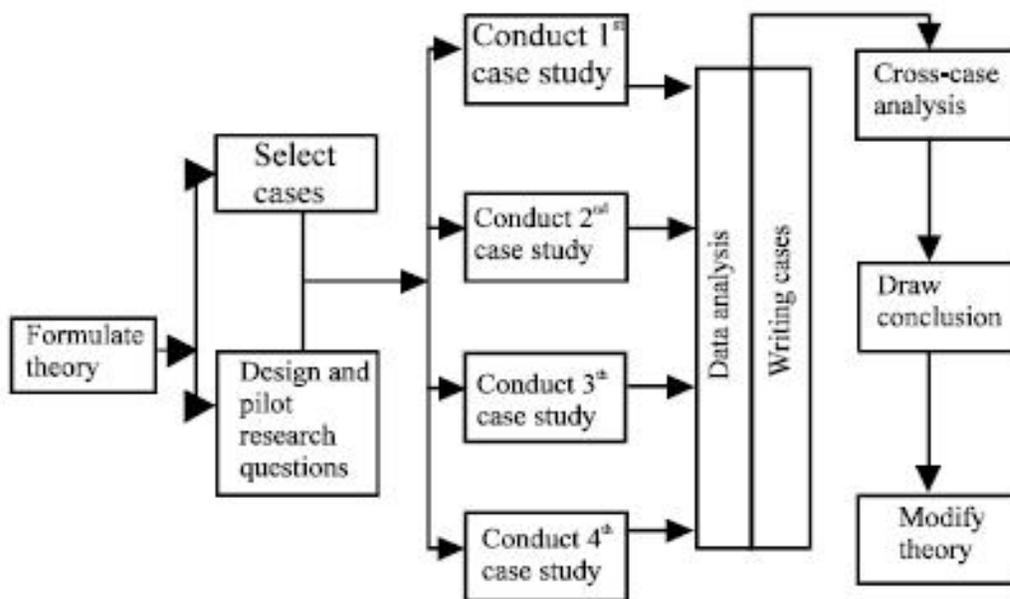
this approach is used as the ending acquired in this case may be useful to verify the findings of the earlier research.

Research Methods

Based on the research crisis, the technique of obtaining the study varies. A case study approach was taken into account to learn the style and determinants of FDI in Malaysia and Singapore. The suitability of the technique of the research is derived from the opinion of Morgan and Smircich (1980) that it is on the type of the social phenomenon being studied.

Case studies

A case study is defined as an “empirical inquiry that investigates a contemporary phenomenon within its real life context using multiple sources of evidence” (Anderson,1993).As, Yin (1989) suggests that a case is defined as “an event, an entity, an individual or even a unit of analysis”. The case is also worried on the analysis of why and how the events takes place, so that the related realities could be caught and the variations in what was originally planned and what essentially occurred could be alleged. As a whole, the case study does not deal with the organization. But the research pays attention to a specific subject, aspect or a feature of analysis. In order to gain insight into trends in FDI and the determinants of the same is taken into account in this research. The particulars of these real life activities could be apparent by means of the evidence increased from multiple basis. This case study is an appropriate technique to increase the depth insight into the problem under examination, according to the opinion of Patton (1987). Case studies are mainly important and helpful in cases which are rich in data and helpful in gaining to a view in depth.



Steps involved in a case study (Noor, 2008)

Data collection Techniques

The technique of data collection is a vital portion in any research because imprecision in the techniques of data collections would unfavorably affect the consequence of the research and therefore gives results that are not valid. There are different varieties of data the key types are Primary and secondary data.

Primary data



This kind of data is taken from the straight responses, which are being taken from the people who are being interviewed. The personal feelings of these individuals, their experience, attitudes and their opinion are gathered by means of primary data. This kind of data is brought out from the measurements made in the laboratory, observations and surveys in the field etc.

Secondary data

By evaluating the available literature in the academics, the proof got from the already existing studies out there could be investigated and a definite trend and pattern could be got from such studies. The benefits of the secondary data are that it does not take into account time saving, costs, and efforts of the researcher and is unremarkable. The problems related with the collection of information could be avoided by the secondary data analysis and provides a foundation for comparison. The reliability of the basis that has published the information at hand is not in the hand of researcher and the researcher may not be able catch the shade of the research purpose of this study. There are also some drawbacks involved with the secondary data collection. This happens because of the availability of studies that would have been designed to capture data that already belongs to some other intention. The next drawback of this technique of information collection is that the data could be outdated. The validity of the methods and measures, which are used for the collection of data, is not known to the researcher. The collection of secondary data brings many basis like research articles, Journals, Magazines, published reports, films, TV, Radio, newspapers, websites and books.

Secondary Data Handling

The reliability of the information may be mainly increased, if the data is taken from various basis and this is a conservative and brand approach used in the gathering of secondary data. A lots of possible basis can be taken in the gathering of secondary data. The main benefit of the technique is that all the data that is taken can be integrated or analyzed in a gathered and on a whole awareness.. Therefore, a holistic perception on the style and determinants of FDI could be investigated. There may be a combination of data from basis and set of information may be taken as the part of puzzle and then a ultimate understanding on the subject of outflow of FDI could be reached. (Yin 2003), this could develop the power of the study and every filament of the information could be better conceived.

The fit between the data chosen and research question for analysis.

The procedure by which the secondary data is situated is not simple at all situations. Therefore, there should be a successful proper fit between the research crisis at hand and also the information that is selected to examine the same. Although, it is most often repeated process where a research problem is projected, there must be a contemplation of the possible information sets and a subsequent cleansing and revision of the question which has reference to the available information or data. There could be more revisions based on the other information sources and only then the research question can be concluded. The most typical method in which secondary data is used for research is to begin with a question and hunt for the data sets that may be useful for the analysis of the question. One more technique may be to start from the watching at the secondary data sets which is available and then continue with the proceed with the action of formulating a question that may be examined by giving the data selected. Although the previous technique agrees with the conservative method of doing a research, the second way is helpful in case of instructions in class room. Though, both the techniques would create quality results. The sequence which is mentioned below can be followed using secondary data (Boslaugh) research.

- Specification of the data to be collected (Boslaugh).



- Definition of the question
- Specification of the population and the variables

Methods of data collection

In a detailed study approach, the information gathering includes the selecting of some of the instances and figures on the research crisis in hand and then going on to eventual ultimate strong examination of the characteristics of these detailed studies or instances. Therefore, taken into account by the investigation of a small number of large issues, and also by distinct and evaluating the issues, the features of the occurrence can be apparent and the situations where they differ can also arrive later. Therefore the idea of concept of FDI outflows in Singapore and Malaysia, where research can be done well with the help of the approach of the case study.

For secondary data collection, a desk based approach can be used. As the worth and genuineness of the research is reliant on the techniques of collection of data, as observed by Jackson (1994), this way is an unremarkable technique as it grips the prose that has been issued earlier. In any case, there should be an critical assessment of the prose that has been gathered can be done in terms of its consistency and verification by making comparisons with other basis that are genuine (Creswell 2003). As a result , taking the background of the study into consideration, the data could obtain from the earlier published documents, academic journals, studies, reports etc.

Data Analysis

The cases being presented after the researcher will try to give a whole picture of the overall concept taken for the examination to bring the present circumstances on the impact of FDI outflows. The researcher would present his conclusions, based on the facts taken from the cases in Malaysia and Singapore. The study cases could be evaluated and balance in the light of the facts that are gathered for the present study. In the portion on conclusions and summary, the insinuation of the explanation and findings would be given on the basis of the facts available instead of providing new particulars. Therefore, the procedure of separating and sorting and the explanation of the data available quintessence of the case study.

CHAPTER-4 CASE STUDY

This chapter deals with the collective analysis of the usage of patterns and trends in the OFDI in the South East Asian economies Singapore and Malaysia and investigates the key determinants of OFDI in Singapore and Malaysia with reference to the service sectors of the nations. It also makes an attempt to investigate the impact of outward foreign direct investment in the competitive advantage gained by the service sectors of Singapore and Malaysia in the global markets. Hence the trends existing in the above mentioned nations are comparatively assessed and the conclusions and recommendations would be provided.

CASE 1: SINGAPORE

Recent FDI in Singapore

The recovery in demand for IT triggered a lot of interest in Singapore investments.

The significant IT investment news during the Oct 2003-March 2004 time includes the following

- Taiwan semiconductor maker UMC - 205 million (US\$123 million)
- Systems on Silicon Manufacturing (SSMC) - US\$220 million.
- Semiconductor producer Infineon - S\$150 million (US\$88 million)



- Siemens - S\$50 million (US\$29 million)
- Matsushita Electronic Industrial - S\$150 million (US\$88 million)
- Hitachi Global Storage Technologies
- Canon -S\$10 million (US\$5.88 million)
- Lucent -US\$10 million
- SGX-listed Eastgate - S\$4 million/US\$2.35 million
- Network solutions provider Adaptec
- US high-end chipmaker Xilinx
- Motorola

Abroad investments of Singapore

For all the Singapore companies, China is the preferred destination for its top investments with the property and the manufacturing sectors contributing to the bulk of the new foreign direct investment. Singapore investment developments (2004), "Data for 2001 (latest available) put total Singapore FDI abroad at S\$131 billion (US\$78.5 billion), a 33% increase from 2001. FDI in financial services accounted for the majority of the FDI, followed by manufacturing FDI. Singapore's total investments overseas, including portfolio investments and other assets totaled S\$257 billion (US\$153.9 billion) in 2001".

Singapore's Investment Abroad 2001 (Billions)

Total FDI	S\$131.9	US\$ 78.5
Of which:		
- Financial Services	S\$ 74.1	US\$ 44.1
- Manufacturing	S\$ 27.1	US\$ 16.5
- Transport/Communications	S\$ 9.4	US\$ 5.5
- Commerce	S\$ 8.8	US\$ 5.3
Total Investment abroad	S\$257.0	US\$153.9

Singapore investment developments (2004), further provides the following figures on the status in the ASEAN region and US and Europe. "While China continues to attract the largest number of investments, Singapore firms made significant investments in ASEAN in Q4 2003 and Q1 2004. Topping the list was Temasek Holdings' purchase of a 5% stake in Telekom Malaysia, for RM1.6 billion. Analysts see this as a significant deal as previous attempts by GLC SingTel to take up stakes in Malaysian government-linked companies were unsuccessful. The largest single Singapore investment transaction during the Oct. 2003-March 2004 period occurred in the United States, where majority government-owned (but publicly traded) ST Assembly Test Services (STATS) announced the purchase of U.S. competitor ChipPAC for US\$1.2 billion (S\$2 billion) in stock. STATS is a mid-sized semiconductor test and advance packaging service provider, and the purchase of the larger ChipPAC will catapult STATS into the world's third largest microchip assembler. The CEO of STATS termed the purchase "an offensive strategy to make us a Tier 1 competitor". STATS had sales of US\$226 million in 2003, compared to ChipPAC's US\$368 million".



Determinants of outward FDI:

Governmental policy:

Over 28 percent of the FDI stocks in 2003 all over the world are contributed by the developing nations (UNCTAD 2004). But the share contributed by the developing nations is still small. But since the year 1990, the contribution of the developing economies has increased proportionally.

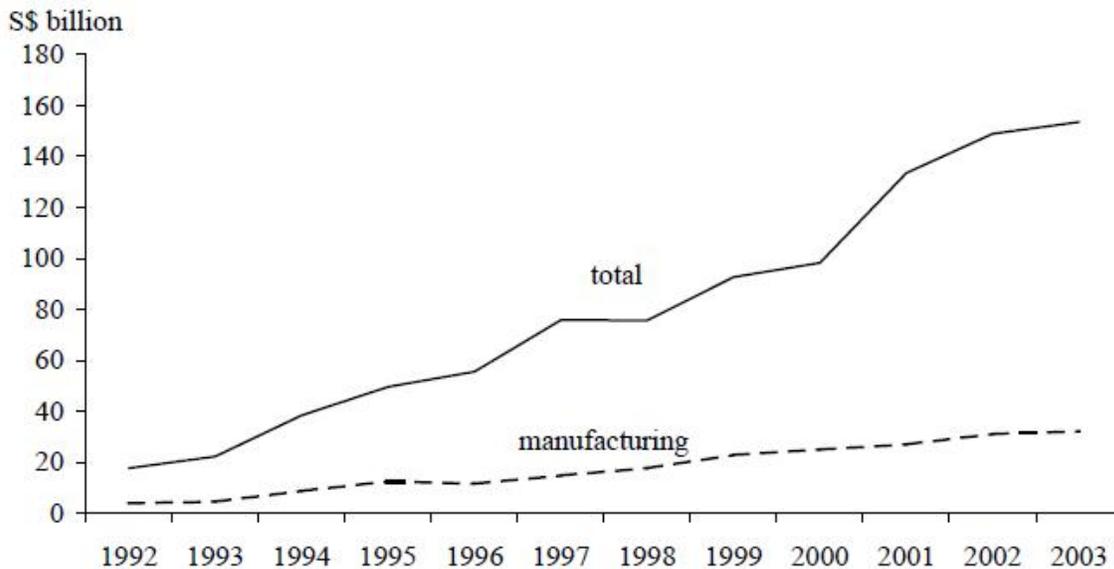
Among the developing economies in Asia, Singapore ranks the second in 2003 next only to Hong Kong. When considering the cumulative flows of the FDI from the year 1995 to 2001 Singapore occupied the second position in all the source nations (ASEAN Secretariat 2002). In the period of 1992- 2003, there was a nine fold increase in outward FDI stocks in the time period.

Table 1 — Outward FDI Stocks of Developing Economies, 1990 and 2003 (percent in worldwide stocks)

	Developing economies						
	All	in Asia	Hong Kong	Singapore	Taiwan	China	South Korea
1990	7.3	2.8	0.7	0.4	0.7	0.1	0.1
2003	10.5	7.8	4.1	1.1	0.8	0.5	0.4

Source UNTCAD (2004)

Figure 1 — Singapore's FDI Stocks Abroad, 1992–2003 (S\$ billion)



Source: DOS (var. iss.)

A large proportion of this development is due to the support provided by the government which provided lot of encouragement for outward FDI and the help provided for the direct investors in many ways so that the global reach of the country can be developed to a large extent. After the recession that happened in the



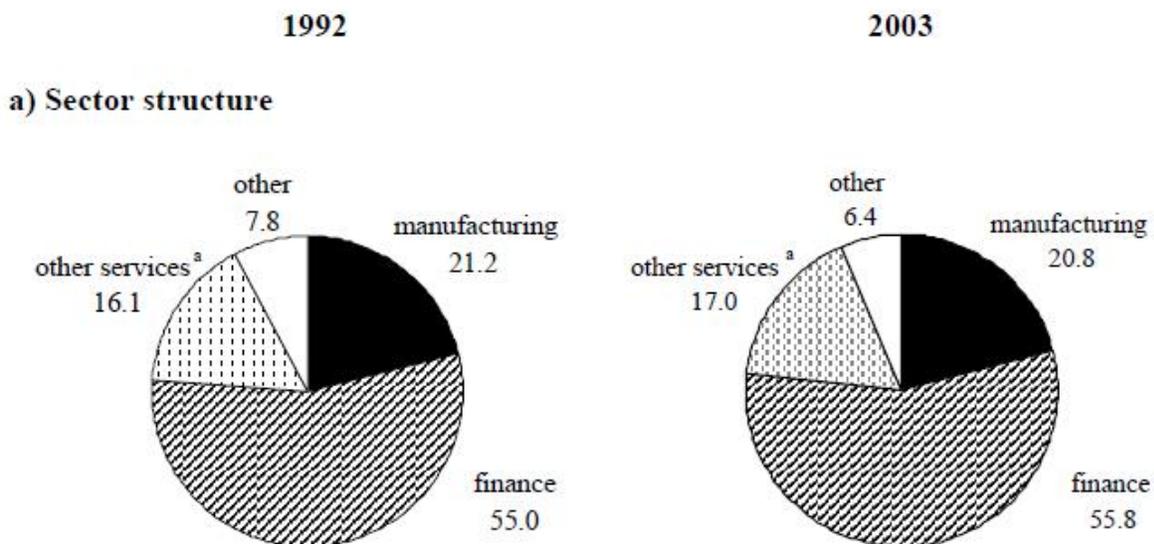
1980s, the government began to pay more attention for outward FDI. The approval for “International Direct Investment Program” came in the year 1988.

Increasing competency by OFDI

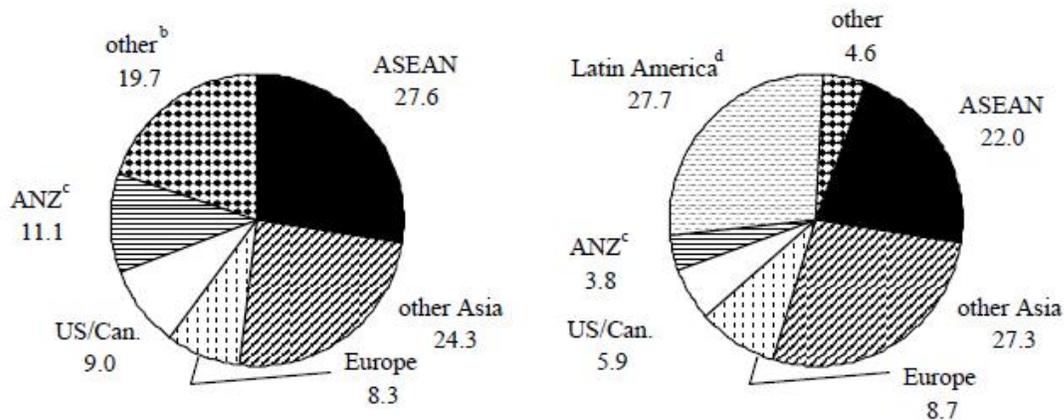
Financial support and tax incentives were provided for the direct investors for the evaluation of the opportunities (Okposin 1999). A committee was set up for the promotion of the overseas enterprises in the year 1993. Various suggestions were made by this committee for facilitating ventures overseas. OFDI was considered by the government as an essential means for the preservation of the competency by means of up gradation of industries and introducing changes structurally (Aggarwal and Agmon 1990). The implication is that the lower activities at the industries should move to places that have labor and land costs that are low. At the same time human capital intensive as well as stages that are technology intensive should be retained in the country only. Hence the considerations on the cost, that is the main priority of the vertical seeking FDI is characterized by means of value chains that are fragmented and are supposed to constitute a portion of total outward FDI.

More than half of the total FDI stocks are accounted by the financial institutions. The contribution of the other services is about 17 percent.

Figure 2 — Sector and Regional Structure of Singapore’s FDI Stocks Abroad, 1992 and 2003 (percent)



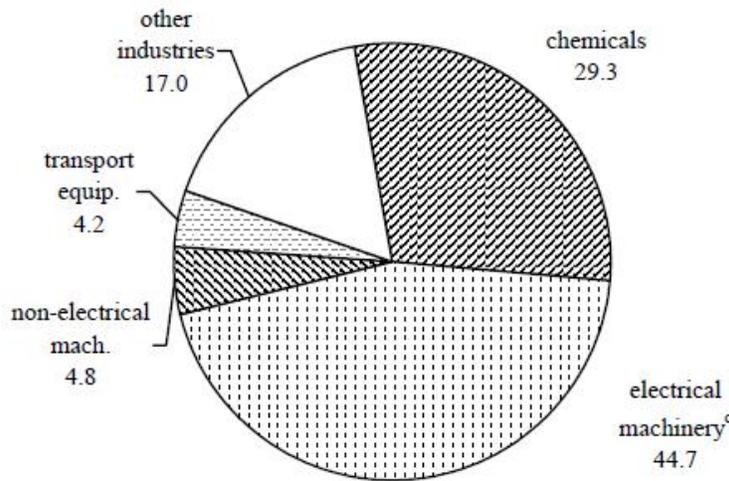
b) Regional structure



^aCommerce; transport, storage and communications; business services.— ^bIncluding Latin America.— ^cAustralia and New Zealand.— ^dOf which 93 percent in finance.

Source: DOS (var. iss.)

Figure 3 — Industry Structure of Approved Manufacturing FDI Projects in Singapore^a, 1995-2001^b



^aTotal project cost basis of foreign investment commitments.— ^bCumulative. — ^cIncluding radio, TV and communication equipment.

Source: ASEAN Secretariat (2002)

Manufacturing sector and OFDI in Singapore

A study done by Ellingsen, Likumahuwa and Nunnenkamp in the services sector of Singapore by employing gravity model depends on whether financial and other services are included in the analysis.



There is a suspicion that the predominance of FDI in the service sector restricts the adverse repercussions of the labor market in the outward FDI of Singapore. In the sector of services, FDI is mainly considered to be market seeking and due to the non tradability of much of the services excludes the export replacement by the FDI. But recently the experiences gained by the advanced economies shows that the process of outsources has received large momentum in the services sector also particularly in the banking services sector. Majority of the outward FDI of Singapore is accounted by the companies that hold FDI. These companies might be involved in the activities of manufacturing but the magnitude of the same is still not clear. There is an increase in the outward FDI of the manufacturing sector of Singapore in the same magnitude as that of the total stocks of FDI.

By exclusion of the financial services, the manufacturing sector came out well with 47 percent of the remaining stocks of FDI in the year 2003. In the host nations of Asia, the contribution of the manufacturing sector was 53 percent. The development strategies at the level of manufacturing in the country are technology intensive and high value added. This is also expected to transfer the nation into a centre of co ordination for the production networks regionally in Asia. This is supposed to have brought about vertical FDI. On looking at it superficially it seems that this is a conflict on the motives behind the outward FDI of Singapore (Yeung 2001). But the considerations on cost are more important in the neighboring host countries in Asia in comparison to the advanced host nations in North America and Asia. The industrial and the regional composition of the outward FDI would provide initial clues as to whether the FDI in Singapore differs from that of the countries that are involved in major investments.

Table 2 — Structure of Outward FDI Stocks: Singapore Compared to Major Home Countries, recent years (percent of total stocks)

	Singapore ^a	Japan ^b	Germany ^c	United Kingdom ^c	United States ^b
Sector structure:					
manufacturing	20.8	n.a.	19.4	31.7	25.8
financial activities	55.8	n.a.	17.0	13.9	19.6
Other ^d	23.4	n.a.	62.9	54.4	54.6
Regional structure:					
region of home country ^e	49.3	19.1	55.7	60.2	20.3 ^h
regional integration scheme ^f	22.0	n.a.	47.5	54.2	13.8
developing economies ^g	82.3	26.5	13.7	12.6	31.7

^a2003. — ^b2002. — ^c2001. — ^dIncluding other services, real estate, primary sector and unspecified. — ^eAsia for Singapore and Japan; Europe for Germany and the United Kingdom; The Americas for the United States. — ^fASEAN for Singapore; EU for Germany and the United Kingdom; NAFTA for the United States. — ^gNon-OECD countries plus Czech Rep., Hungary, Korea, Mexico, Poland and Slovak Rep. for all home countries except Singapore; for Singapore: Asia (except Japan), European countries other than EU and Switzerland, Latin America and the Caribbean and unspecified. — ^hNote that 19 percent of FDI stocks are “unallocated”, a significant proportion of which is likely to be located in Latin America, especially the Caribbean.



Source: OECD (2003)

Patterns of OFDI in Singapore

There is an exceptional structure for the FDI in Singapore because an important role is played by the financial sector. When the financial and the other services are taken together the outward FDI of Singapore is similar to that of the share of the FDI stocks that is held by that of Germany and the United States of America. Only the UK exceeds Singapore in terms of the share in the manufacturing sector. There are many differences that exist between the regional structure of the FDI stocks in Singapore and investor nations

- The concentration of FDI of Singapore in the region of Asia is equal to that of the pronounced presence of England and Germany in Europe. But this is in quite contrast to the FDI to that followed by Japan
- In quite contrast to the pattern observed in case of Europe, the focus of the FDI in Singapore in the Asian region is not attributed mainly to the regional integration schemes that are institutionalized. The members in the ASEAN association have hosted over one fifth of the total stocks of FDI in Singapore. Concerning the FDI in the manufacturing sector, a considerable shift has been seen in case of the ASEAN host nations to other nations since the year 1992. This was due to the decline in the importance of Malaysia.
- Particularly, the developing nations that are not that well advanced than that of Singapore host over 80 percent of the FDI stocks in Singapore and this is equivalent to the share contributed by that of the developing nations in the US Foreign direct investment. The discrepancy becomes much more when Singapore is compared to that of the top European nations. The structural nature of the outward FDI of Singapore could be attributed to the special aggregation of the openness of the nation for FDI as well as foreign trade as well as inflows of FDI on the other hand and the government's guidance with respect to the outward FDI. This would shape the gravity model. Majority of the FDI that is undertaken by the industrialized nations is of the horizontal nature. But the regional structure of the FDI practiced by Singapore leads to the proposition that vertical FDI is prominent. The considerations on cost is more important when the countries with low income are involved. Hence the market related determinants of FDI like the size of the population and the income per capita in the host nations would impact in a lesser manner on the FDI of Singapore than in the case of the developed nations. On the other hand, the labor markets in Singapore would be impacted by the increasing imports that is the result of FDI that is cost oriented in the nations with low income. The other difference is due to the part played by the institutionalized integration regionally in quite contrast to the FDI of the investor nations in Europe. The characteristics structurally of the nation of Singapore not only distinguishes Singapore from that of the other leading nations but also leads to the implication that the findings subsequently does not apply to the investor nations that not that advanced economically than that of Singapore.

Gravity model

Many studies have applied the gravity model and Carr et al (2001) have given an extended gravity model which argues for the existence of costs of trade and different intensities of factors that demands a model that has both horizontal as well as vertical FDI. This model of knowledge capital has the skill ratios of nations and also the perceived costs of trade as well as investment as explanatory variables.

Such models that are developed recently take into consideration, the microeconomic theories of the firm. The basic on which the theory is formed is obviously superior to that of the gravity models that are basic. But still the basic explanations of the gravity model are used in the subsequent analysis on the outward FDI of Singapore. This is mainly due to the fact that the data required for the application of the model of knowledge capital are not available readily for the host nations as well as Singapore on its FDI. While



many of the studies use data on total trade and FDI, this analysis is mainly a disaggregated analysis. Also the results of the analysis using the basic gravity model and the extended models are mostly consistent showing that it is appropriate to compare the results.

Findings:

The paper analyzed the association between the FDI of Singapore and trade and also tested if the concept of outward FDI developed by Singapore has adverse effects on the labor market. The impact of the home nations on outward FDI have got only little attention till now even if the upcoming transnational corporations in the developing nations are no longer small scale, low tech and labor intensive. Hence an analysis of the implications of trade would greatly fill this gap.

Table 3. results of the gravity model equations

Sample Work



	Total FDI				FDI in manufacturing			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
ln(Population)	0.41* (0.22)	0.09*** (0.02)	0.09*** (0.02)	0.08*** (0.02)	0.76*** (0.25)	0.13*** (0.04)	0.14*** (0.04)	0.13*** (0.04)
ln(GDP/cap)	0.29 (0.29)	0.04* (0.02)	0.04* (0.02)	0.02 (0.03)	0.23 (0.33)	0.01 (0.03)	0.01 (0.03)	-0.07* (0.04)
ln(Distance)	-0.78* (0.43)	-0.07*** (0.03)	-0.06** (0.03)	-0.13*** (0.04)	-1.32** (0.48)	-0.12** (0.06)	-0.13** (0.07)	-0.24*** (0.08)
ln(FDI lagged)		0.91*** (0.03)	0.90*** (0.03)	0.90*** (0.03)		0.93*** (0.03)	0.90*** (0.03)	0.86*** (0.05)
Share Chinese			0.16*** (0.05)				0.27*** (0.09)	
ASEAN				-0.20* (0.11)				-0.46*** (0.18)
APEC				-0.01 (0.08)				0.37** (0.15)
Constant	3.78 (4.45)	-0.49 (0.39)	-0.52 (0.41)	0.42 (0.56)	0.73 (4.98)	-0.85 (0.75)	-0.83 (0.85)	1.13 (0.96)
R ²	0.23	0.94	0.94	0.94	0.53	0.90	0.90	0.91

a ***, **, and * indicate significance levels of 1 percent, 5 percent, and 10 percent, respectively; standard errors in parentheses. The simultaneous inclusion of the variables Share Chinese and ASEAN does not produce significant results, which are thus not reported. .

Source: DOS (var. iss.)

There are many peculiar aspects of FDI in Singapore. Ellingsen, Likumahuwa and Nunnenkamp state that “Most strikingly perhaps, institutionalised regional integration does not appear to have stimulated FDI by Singapore in its ASEAN partner countries. This is in sharp contrast to the experience of EU integration. ASEAN’s insignificant effect on Singapore’s FDI also differs from the positive effect ASEAN has had on Singapore’s overall exports and imports. Hence, it appears to be mainly with regard to intra-ASEAN investment flows that bold political initiatives towards closer integration have been undermined by implementation deficits. Our FDI-related findings tend to support the skeptical assessment of ASEAN’s effective degree of integration by Langhammer (2001) as well as Hew and Soesastro (2003). In contrast to institutionalised regional integration, Singapore’s outward FDI has been stimulated by informal business networks, reflected in a high share of ethnic Chinese in the host countries’ population, and by incentives the Singaporean government has offered to investors reaching beyond ASEAN”.



Also in quite contrast to the trend observed in case of the industrialized nations, the income per capita of the host nations is not representative of the significant driver of the FDI in Singapore. Hence it could be assumed that the share contributed by that of the FDI vertically is higher and the considerations that depend on the market is less prominent than the FDI by the majority of the nations that are industrialized. The companies that operate in Singapore that are controlled by foreign nations are seen to have an important part in the setting up of structures that are vertically integrated in the sector of manufacturing by means of outward FDI. Hence the concept of outsourcing as well as relocation to nations with lower income and the subsequent repercussions on the labor market in the home nations would be the hot topic in the political agenda of Singapore also.

Investment Coordination

Coordination in the investments is an essential feature for the streamline of the grant packages as well as incentives that are offered for the transnational corporation from the emerging economies by the host governments that are competing on one side and the outlays put by the transnational corporations on the other hand. The government of Singapore is involved in the active encouragement of the OFDI so that in certain markets like Africa, china and India, there could be large expansions of the operations.

Leveraging

The bid for the abroad investments are strengthened abroad by the home governments by the pooling as well as organizing of the wide range of benefits that could be provided by the participants at the sites of the host. The home government of Singapore displays the strategy of leveraging so that better returns can be harnessed. Such initiatives are individually handled by the Singapore home government so that there is an optimization of the benefits of OFDI from the host nations. The process of governance capabilities, capitalization and the successful operation of the export processing zones have been used by the transnational corporations so that bids could be won for abroad operations.

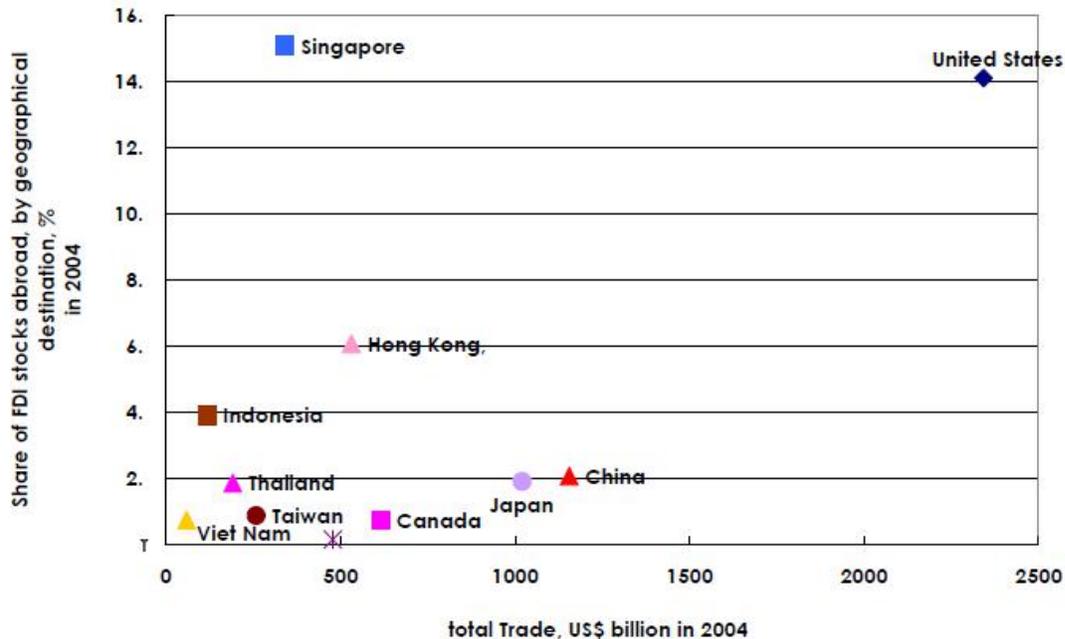
Singapore's "Efficiency-seeking" FDI from ASEAN

Hiratsuka (2006), states that "ASEAN country TNCs are expanding their overseas business by "efficiency-seeking" FDI as developed country firms have done. Indeed, a large number of Singapore TNCs went to Malaysia where wage rates are low and businessmen can commute by car from Singapore".

Geographical Distribution of Outward FDI from ASEAN

There are many geographical patterns seen in the outward FDI from ASEAN. The geographical pattern is the result of gravity frame work that is determined by the market as well as geographical distance. The following figure shows the contribution of the geographical destination on the total values of trade of destination economy and this is the proxy of economic size.

Share of FDI Stock Abroad from Malaysia by Geographical Destination

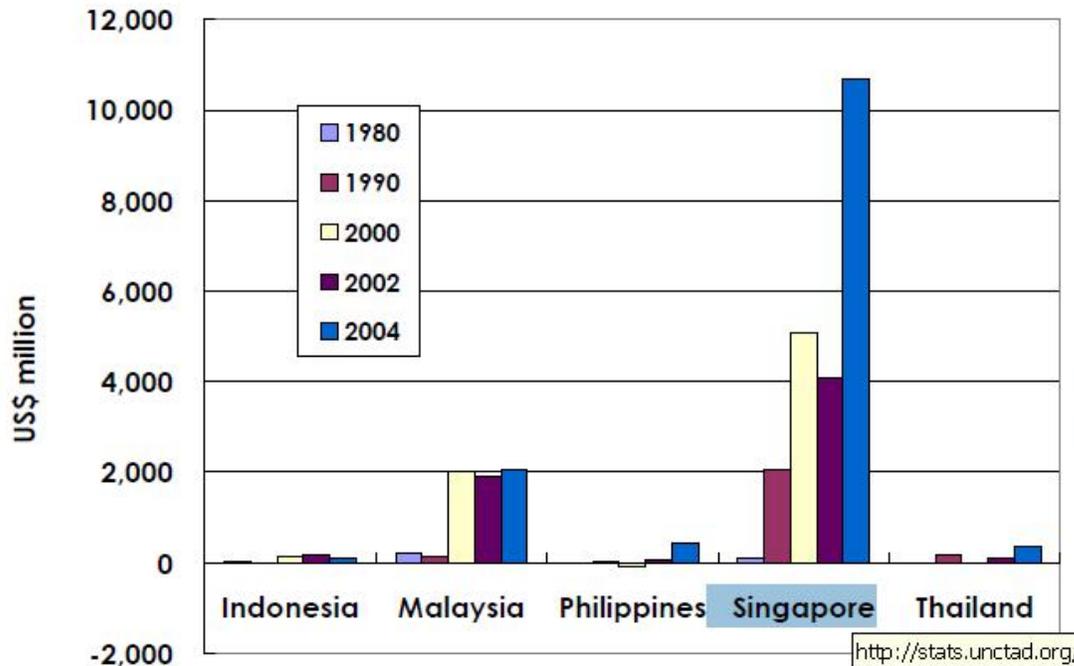


Source: UNCTAD FDI Online

The largest source of FDI as well as the host nation of the intra-ASEAN FDI is Singapore. Over 64 % of the source FDI was from that of Singapore nation and over 35 percent of the outward FDI from the Singapore economy was towards Malaysia which is followed by Thailand, Vietnam and Indonesia. The intra- regional FDI in the ASEAN in Singapore has its focus in 4 nations- Malaysia, Indonesia and Thailand. Also 67 % of the outward FDI from that of Malaysia and 86 percent from Indonesia is directed towards the economy of Singapore interestingly.

Hiratsuka (2006) tries to reason out why most of the FDI of Malaysia and Indonesia is concentrated in Singapore. He states “Singapore performs a function of intermediary trade where goods are transported from neighboring countries to Singapore for trade and then shipped all over the world. Foreign trade payments are carried out in Singapore, and surplus dollars are operated there. For this function, neighboring country enterprises have had international trade offices in Singapore. In recent years, Singapore has also taken on functions of R&D and design centers. In particular, Malaysian firms have set up center of excellences functions there. For instance, Bogasari International (Indonesia, food processing) chose Singapore, in part due to the country’s favorable R&D incentive schemes for foreign Investors. Malaysia’s labor force is on par with Singapore, so it has functioned as a training center for ASEAN as training costs is cheaper there than in Singapore”.

Outward FDI Flows of the ASEAN Countries, US\$ million



Source: FDI data from UNCTAD and trade data from IMF, Direction of Trade, CDROM 2005.

Intra-ASEAN FDI Flows by Source and Host Country (1995-2003, US \$ million)

Host country	BRN	CAM	INE	LAO	MAL	MYA	PHL	SIG	THL	VET	Total
Source country											
Brunei (BRN)	-	-	-27	-	298	-	-	176	0	-	448
Cambodia (CAM)	-	-	0	0	3	-	-	5	9	1	17
Indonesia (INE)	55	-	1	-	309	30	39	3157	43	59	3691
Laos (LAO)	-	-	0	-	0	-	-	1	5	6	12
Malaysia (MAL)	205	-	328	95	0	65	85	2830	134	492	4234
Myanmar (MYA)	-	-	0	0	0	-	-	45	2	-	48
Philippines (PHL)	4	-	13	-	92	4	-	43	29	49	234
Singapore (SIG)	1109	-	1401	10	6082	746	1086	0	5616	1708	17760
Thailand (THL)	8	-	140	151	186	194	29	303	0	382	1393
Vietnam (VET)	0	-	0	4	38	-	-	13	3	-	58
Total	1380	-	1857	261	7009	1039	1239	6575	5840	2696	27894

Source: Compiled by author from ASEAN Secretary FDI Data, "Statistics of Foreign Direct Investment in ASEAN Seventh Edition", 2005.

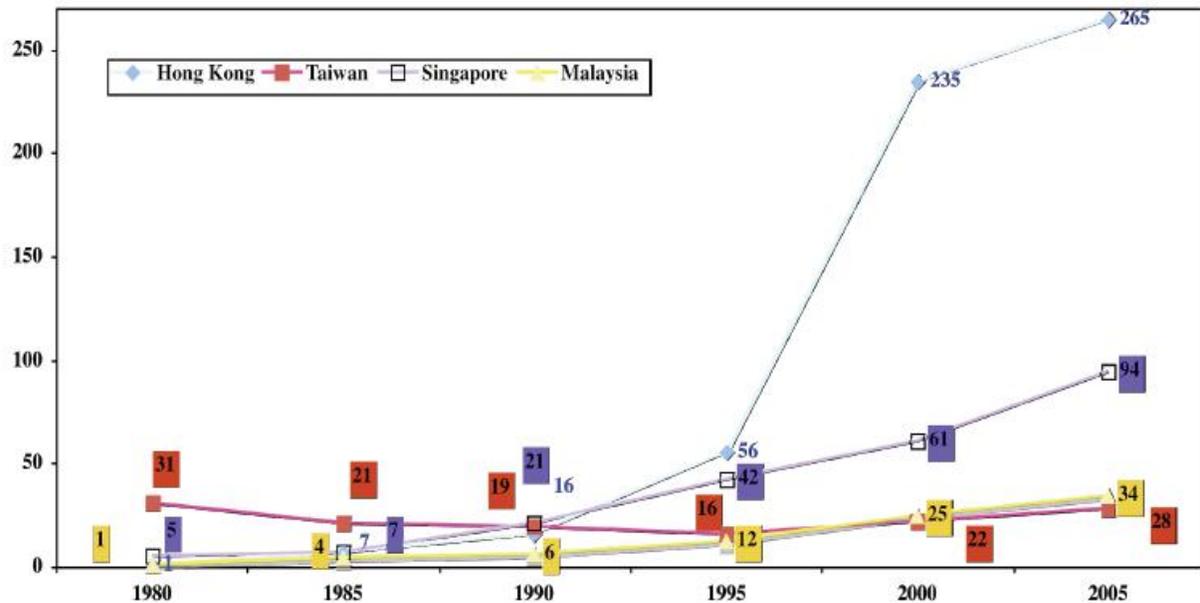
CASE 2: MALAYSIA

Overall performance

A well known destination for FDI is Malaysia and in the recent times it is becoming a significant contributor towards outward FDI. The contribution of Malaysia for the percentage of total FDI from that of the East, South and South East Asia has risen from 1 percent in the year 1980 to over 5 percent in the year 2005. It also achieved an increase from that of USD 197 million in the year 1980 to that of USD 44.5 billion in the year 2005 (WIR2006), though the performance of the Malaysian FDI is not equal to that of Hongkong. This shows that there is a growing confidence in case of the firms in Malaysia for venturing abroad. HKSAR's contribution was 56 percent of the total FDI in the year 2005 down from a percentage of 64 percent in the year 2000. Singapore, province of china and Taiwan are the other leading nations that perform in the region.

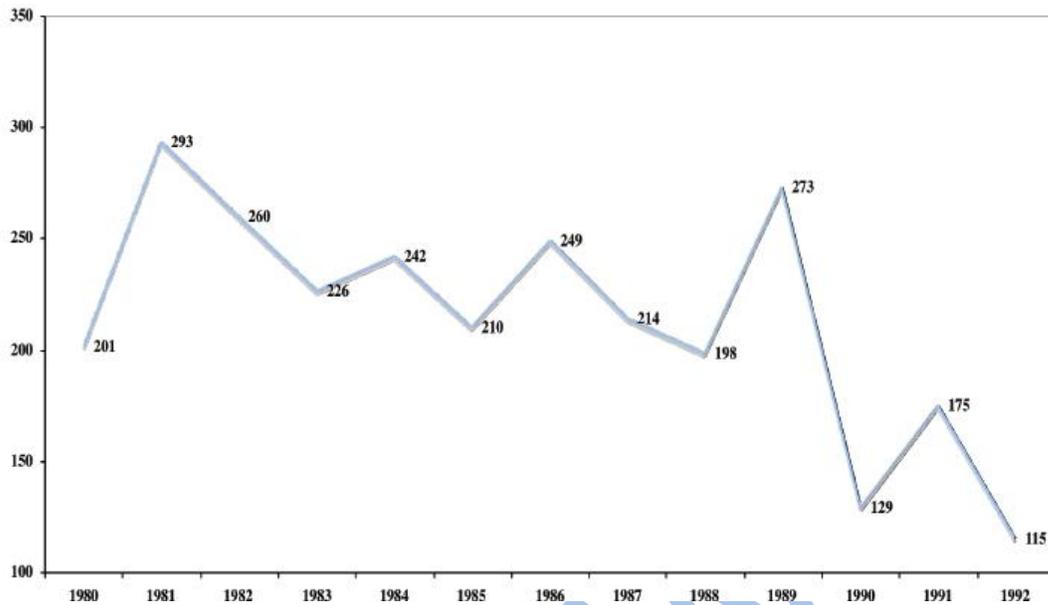


Figure OFDI (Stock) as a Percentage of GDP

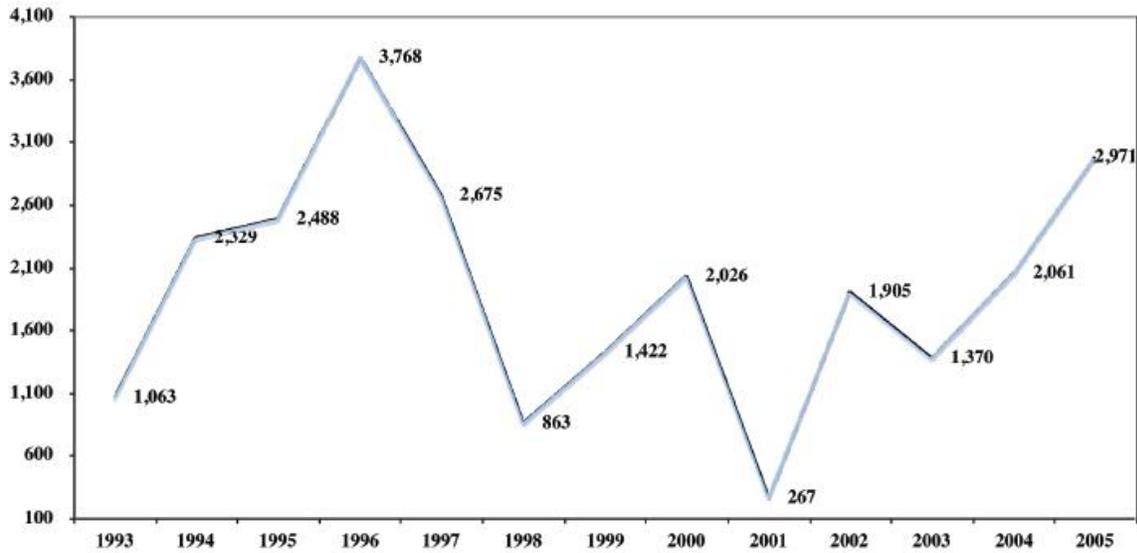


With respect to the flows of OFDI from the period between 1980 to the year 1992, the flows annually did not exceed that of USD 300 million. Excluding the years 1981 and 1989, the flows of OFDI were in the downward trend and this reaches a lowest point of USD 115 million in the year 1992. The outward FDI in this time was mostly the state owned enterprises of Malaysia that are involved in the purchase of the equities of the foreign corporations that are operating in the economy of Malaysia. This exercise was phased out in the period of mid 1980s. The rank of Malaysia was high as a source of outward FDI. In the performance index provided by UNCTAD, Malaysia stood among the top 35 nations from the period between 1990 to 1992. The highest performance of Malaysia was during the period between 1993 to the year 1995 and in this period it came out in the eighth position.

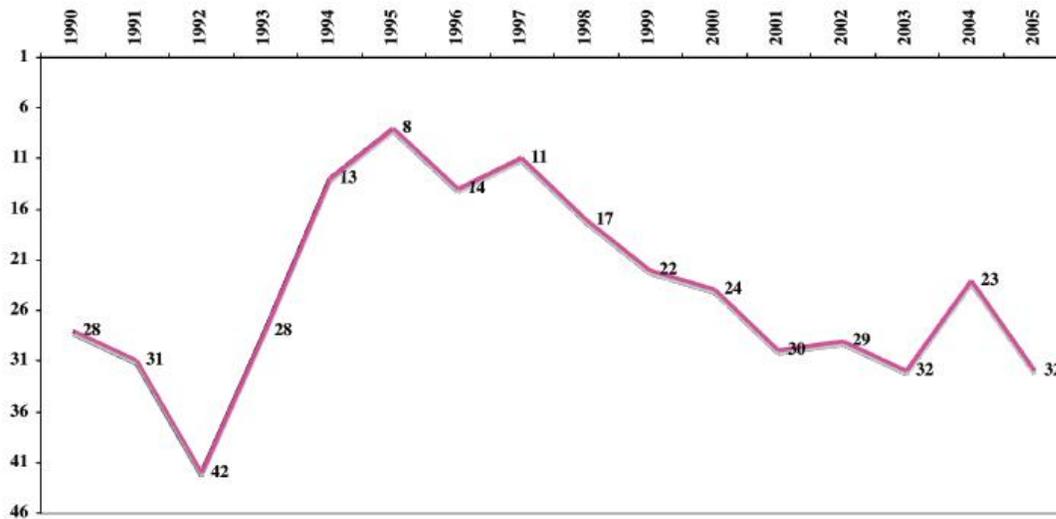
OFDI Flows (1980 – 1992)



OFDI Flows (1980 – 1992)



Malaysia's Outward Performance Index Ranking (1993 – 2005)



Destination and the sector

The FDI of Malaysia is spread over 100 nations and the Labuan international offshore Financial centre (LIOFC) was the major location for the outward FDI of Malaysia. This is followed by the nations like US and Singapore in the period between 1993 to 2005, but the flows to LIOFC were much greater than that of the other locations. This shows the importance of the LIOFC as a center of investment for the companies based in Malaysia. The report by the BNM said as follows:

“...Investments in the finance, insurance and business services sub – sector reflected to a large extent activities of investment holding companies that were set up in IOFCs to centrally manage global investment operations...” [BNM 2006]

In the region of the ASEAN, the top ten destinations were given to that of Singapore and Indonesia. Also China occupied a prominent place. One surprise was that Mauritius nation also occupied position among the 101 location in OFDI. The aggregate investment for Mauritius was like that of Taiwan.

But the major destination of the OFDI of Malaysia by categorizing of the nations in the time from 1999 to 2005 was mainly the nations that are industrialized. Over 34 percent of the OFDI is for such nations like the UK, United States, Belgium, Netherlands and the European nations. The LIOFC as well as the Cayman islands also favored the destinations with 26 percent of the Malaysian OFDI that are heading to such stores. The ASEAN as well as the economies that are newly industrialized totally accounted for over 31 percent of the outward FDI. The outward FDI of Malaysia to other parts of Asia that is inclusive of China as well as India and also Africa did not amount much to 9 percent in a cumulative manner. Also America was not an important destination.

The OFDI of Malaysia did go mainly into the sectors like the manufacturing, services, utilities and the oil and natural gas sectors and this has amounted to about 92 percent. According to the report of the BNM, within the sectors like the services, finance investments, business and the insurance services were the largest at 43 percent and this is followed by that of storage, transport, communications and storage holds 20 percent and the utilities contribute a 20 percent and the distributive trade restaurants and hotels at a rate of 12 percent.

Ranking in Top 100 Non Financial TNCs (by Foreign Assets) in 2004



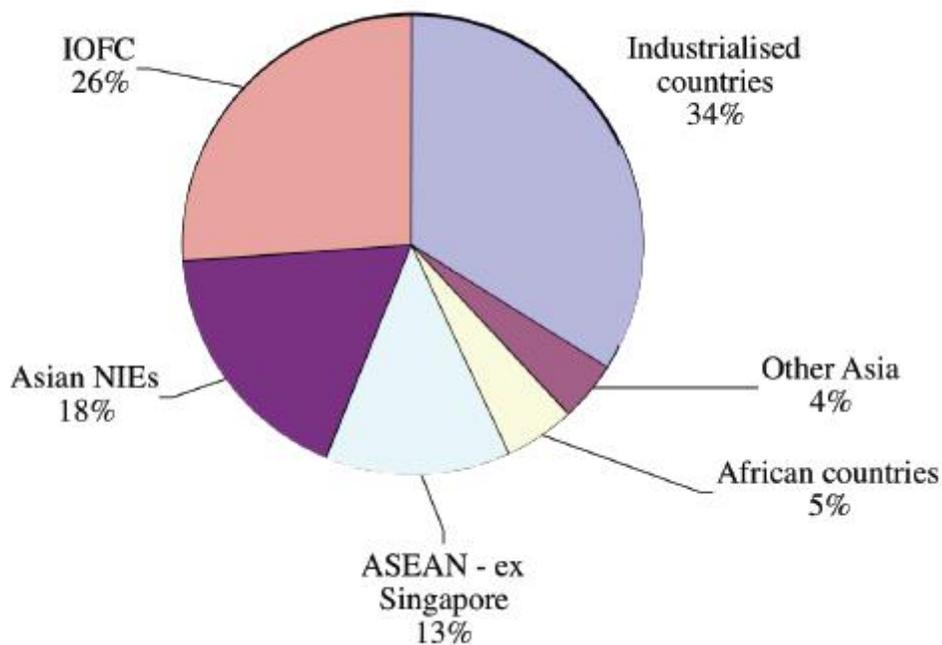
Corporation	Ranking	Industry	Foreign			
			Assets (US mil.)	Sales (US mil.)	Employment	Affiliates
PETRONAS	2	Petroleum Exp./re	22,647	10567	4016	167
YTL Corp. Berhad	32	Diversified	3,359	571	1423	37
MISC Berhad	45	Transport	2625	1797	3785	16
Sime Darby Berhad	55	Diversified	1838	2636	6207	146
MUI Berhad	77	Diversified	1042	476	8612	39
Kumpulan Guthrie Berhad	86	Forestry	857	279	43514	1

Source: WIR2006

The major determinants of outward FDI

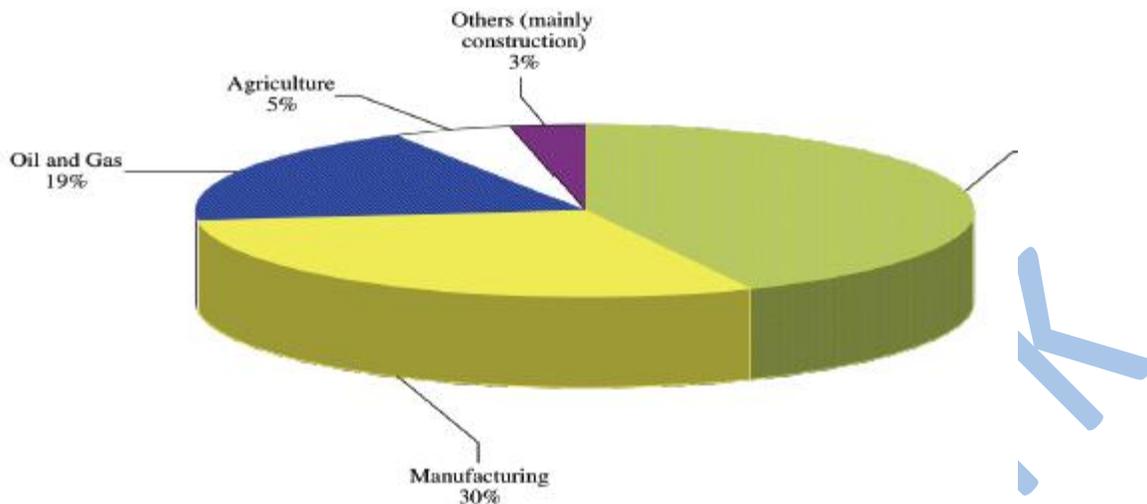
There are a lot of factors that have contributed for the push as well as the pull factors for the outward FDI. Analyzing the flows in the OFDI there is a obvious indication that the pull as well as the push factors modified in the early periods of the 1990s and this demonstrated the leap in the growth of the Malaysian OFDI from the year 1993.

Direct Investment Abroad by Region in Percentage (1999 – 2005)



Source: BNM 2006

Direct Investment Abroad by Sector (1999 – 2005)



Source: BNM 2006

Structural Factors

One of the major determinants of FDI in Malaysia is the economic growth of the nation that is highly impressive. An average rate of growth of 6.5 percent is achieved in the real GDP since the independence of the nation in the year 1957. There was a growth in the per capita in the GDP by over 7 percent annually.

Cyclical Factors

In the period between 1985 and 1998, there was a recession in Malaysia. Particularly the recession in the year 1985 has a direct effect in encouraging the OFDI in Malaysia. An illustrative example is provided by means of the property sector. Tham (2006) observed that there is a collapse in the market property in the year 1985 that led to the redirecting of the OFDI in the business investments from the year 1989 onwards. The country is motivated by the requirement to look out for new revenues out of Malaysia and the nations involved in the property and country development were making inroads in nations like Hong kong, China, UK for the purpose of constructing infrastructure and development of property in nations like India, Asia and Africa, Indonesia, china and combodia. Also in the seven company study done by Tham (2006) observed that the saturartion as well competition observed in the sector of services in the domestic market are the motives that drive the companies for abroad investments.

Institutional factors

Governmental policies

By means of state owned enterprises, the government of Malaysia acquired agency houses owned by the British in Malaysia in the late 1970s and the early days of 1980s. Such agency houses like Boustead, Barlows, Guthrie, Crossfield, Sime Darby and Harrison were the active centers of agriculture, tin mining, international trade and also had business interests in the region of Southeast Asia. The headquarters of the centers were in the home nations and there were reverse take overs by means of agencies like Permodalan Nasional Berhad (PNB) that purchases equity from that of the open market. One illustration of such prominent take overs is the reputed “Dawn Raid” on the London Stock Exchange (Martin, Sue 2006).

“...The Malaysian government introduced a package of incentives in 1991 in the form of tax abatement on income earned overseas and remitted back to Malaysia and tax deduction for pre-operating expenses.



Beginning 1995, all income remitted by Malaysian companies investing overseas (except from banking, insurance and sea and air transport businesses) is fully exempted from income tax.”

“...According to a Morgan Guaranty estimate, total capital flight during 1976 to 1985 amounted to USD12 billion.”

Market seeking OFDI

Due to the limitations in the domestic markets of Malaysia, the local companies were trying to look out for newer markets. In a study done by Ragayah (1999), there were seven companies studied. These companies sought out for new markets or looked out for the expansion of the existing markets and this served as the major pull factors of the 5 concerns. The largest export market of Malaysia is the European Union, United States and Japan (MITI 2006b). In the industrialized nations the majority of the investments were by the NRCCs. The companies in Malaysia have succeeded in moving up in the value chain or developing a system of supply chain management that is integrated by acquisition of interest in or by the formation of joint ventures with that of foreign counterparts.

Resource seeking OFDI

PETRONAS the national oil company of Malaysia and the plantation companies were investing actively in overseas for resources. The plantations and oil fields that are the said resources that is scant in Malaysia that drives the companies to look out for resources in the abroad nations. Natural gas and oil constitutes a strategic resource and with wide knowledge and long experience in the exploration and extraction of domestic oil and gas PETRONAS was expected to do well. Hence it follows the global diversification strategy due to the high expectation for energy demand globally because of BNM (2006). The company experiences same kind of advantages in case of plantation production and management-technical capability and experience that are the major determinants of the Malaysian plantation companies that have investments abroad specifically into Indonesia.

Investment Guarantee Agreements and Trade Agreements

With over 67 different nations Malaysia has entered into trade agreements called investment guarantee agreements (IGAs) that include the members of two groups- the organizations of Islamic nations and the ASEAN. These trade agreements that are also investment treaties bilaterally stick to the provisions provided in the convention on dispute settlement which was acceded by Malaysia in the year 1966. The convention comes under the patronage of the international bank for development and reconstruction.

South – south co-operation

There has been an active promotion of south-south cooperation by Malaysia during the regime of Mahathir. Since Malaysia is a member of the non-aligned movement, the organization of the Islamic nations and the 77 group has been the major advocate for the co operation between south in the arena of technology and investment. The close association between politics and business in Malaysia has led to large investments in the developing countries as the business are a reciprocation of the favors that are offered by the politicians. MASSA- the Malaysian south-south association and the MASSCORP- the Malaysian south-south corporation berhad show that the cooperation between south to south

ASEAN Free Trade Agreement

In the year 1992 January the agreement of ASEAN free trade area was established for the elimination of the barriers in trade among the nations in the South East Asian countries. The major objective is the integration of the economies in Asia into a united base for production and creating a regional market that consists of over 500 million people. Majority of the ASEAN is a free trade area now and there are six major nations that have brought down their barriers on the tariffs for almost all of their products to not more than 5 percent.

World Trade Organization

There was an accession by Malaysia to the World Trade organization in the year 1994. The agreement of Marrakesh made a lot of progress in many of the areas.



- The liberalization of the market that has the capacity for the addition to one percent of the real GDP of the world and over 10 percent to the trade of the world on the full agreement being implemented.
- By strengthening the rules and the structures of the institutions especially the creation of the world trade organization would lead to a decision of the discrepancy and the impairment in the principles and rules of the trade
- Integrating the newly ventured areas to the trading system multilaterally like the GATS agreement on the services and the intellectual property rights that are related to trade and the contentious sectors like the clothing, agriculture and textiles that are sensitive traditionally and contentious.

SUMMARY AND CONCLUSIONS

For all the Singapore companies, China is the preferred destination for its top investments with the property and the manufacturing sectors contributing to the bulk of the new foreign direct investment. One of the major determinants of the OFDI in Singapore is the policies followed by the government which provided lot of encouragement for outward FDI and the help provided for the direct investors in many ways so that the global reach of the country can be developed to a large extent. After the recession that happened in the 1980s, the government began to pay more attention for outward FDI. The approval for “International Direct Investment Program” came in the year 1988. The consideration on the cost that is the main priority of the vertical seeking FDI is characterized by means of value chains that are fragmented and are supposed to constitute a portion of total outward FDI. There is a suspicion that the predominance of FDI in the service sector restricts the adverse repercussions of the labor market in the outward FDI of Singapore. In the sector of services, FDI is mainly considered to be market seeking and due to the non tradability of much of the services excludes the export replacement by the FDI. By exclusion of the financial services, the manufacturing sector came out well with 47 percent of the remaining stocks of FDI in the year 2003. In the host nations of

Asia, the contribution of the manufacturing sector was 53 percent. The development strategies at the level of manufacturing in the country are technology intensive and high value added. This is also expected to transfer the nation into a centre of coordination for the production networks regionally in Asia.

The contribution of Malaysia for the percentage of total FDI from that of the East, South and South East Asia has risen from 1 percent in the year 1980 to over 5 percent in the year 2005. It also achieved an increase from that of USD 197 million in the year 1980 to that of USD 44.5 billion in the year 2005. The OFDI of Malaysia did go mainly into the sectors like the manufacturing, services, utilities and the oil and natural gas sectors and this has amounted to about 92 percent. According to the report of the BNM, within the sectors like the services, finance investments, business and the insurance services were the largest at 43 percent and this is followed by that of storage, transport, communications and storage holds 20 percent and the utilities contribute a 20 percent and the distributive trade restaurants and hotels at a rate of 12 percent.

The major determinants were the structural Factors, cyclical Factors, Market seeking OFDI, resource seeking OFDI, Investment Guarantee Agreements and Trade Agreements, South – south co-operation, ASEAN Free Trade Agreement, World Trade Organization that constitute a set of push and pull factors.

Recommendations

By any measure, the economy of Malaysia is an open economy with the flows of trade and FDI playing a major role in the growth and development of the nation. Openness in terms of the economy is a two way street that consists of inflows as well as outflows. In this sense in the economy of Malaysia, the OFDI is an important component of the open economy of Malaysia. It has also emerged as a source of FDI for the other nations and this fact also has serious implications for the economy of Malaysia. Much is dependent



on the macroeconomic situation and in the early 1990s when there were large deficits in current accounts for the nation, investment in the reverse manner was a pain in the neck for the nation. The foreign exchange earnings of the TNCs were used to make investments abroad.

The policy implications of the Malaysian OFDI is given by Arif (2006) as follows: “Malaysian OFDI had worsened the country’s balance of payments situation in the early 1990s. This was problematic as FDI inflows into the country were also drying up due to the massive diversion of foreign investment to China. To finance its balance of payments deficits, Malaysia had to resort to short-term capital inflows, which were volatile and footloose. Malaysia was sucked into the Asian financial crisis in July 1997 when foreign short-term capital fled from the country. The rest is history. Seen in this light, OFDI was one of the factors that had inadvertently contributed to the crisis. That said, one must hasten to add that this is not an argument against OFDI, but just that the timing was wrong. The post-crisis situation is very different. Malaysia has subsequently been registering substantial current account surplus, which has grown from 13.2 per cent of GDP in 1998 to 16.7 per cent of GDP in 2006. Malaysia’s foreign exchange reserves have soared to USD 87 billion, equivalent to 8 months of retained imports, more than 6 times short-term external debt. Malaysia now has far more reserves than it needs. It makes good sense to put surplus earnings to good use rather than to simply add to the ballooning reserves. Outward investment represents a good outlet”.

In the case of Singapore, the policy of the government gives the suggestion that relocation and outsourcing in case of some of the industries is not an effect that is useless in case of FDI but it is rather a deliberate policy for the shifting of the economic activity towards manufacturing by higher value additions which would serve as a means to preserve the competency internationally. Some researchers have concluded even before a decade ago that Singapore is a “government directed dynamic comparative advantage”. In this concept the promotion of the FDI occupies an important position.

As stated by Ellingsen, Likumahuwa and Nunnenkamp, “By luring foreign TNCs with advanced technological and managerial skills into Singapore, notably in the chemical industry and the machinery and transport equipment industry, the Government facilitated the process of industrial upgrading. Policymakers should actively support FDI in both directions, in order to boost the level and range of domestic technological capabilities. In the short run, however, restructuring through the promotion of vertical FDI is likely to give rise to distributional conflicts within specific industries. Low-skilled workers in relatively labour intensive lines of manufacturing are most likely to suffer deteriorating employment and wage prospects. Most importantly, increased educational and training efforts would be required to upgrade the skills of less qualified workers. In other words, forward-looking government policies must not only focus on technological upgrading but also on the employment and wage prospects of workers who are ill-prepared to participate in this process”.

CHAPTER 3

RESEARCH METHODOLOGY

This section’s main aim is to give a summary of the sketch of the research that the student intends to put it into effect so as to examine the sample and style in the OFDI in the South East Asian economies Malaysia and Singapore and to recognize the main factor that determines the OFDI in Malaysia and Singapore which has reference with the nation sectors. The research also strives to examine the crash of the external overseas direct venture in the combative improvement gained by the tune up sectors of Malaysia and Singapore in the world markets. The particulars of the Procedure of study adopted and the techniques adopted in the gathering of the data and analysis of data, complied by the student are also described in this chapter. The basis of the data collection is also described in this chapter.

Positivism and Interpretivism :



Interpretivism 's perception argues that the concept of truth is a " social construct" by itself or it can be said as when we take for granted or what we assume as the truth is built socially or brought by means of social constructions (Walsham 1995) . Interpretivism created as " taking in to account at the features of positivism that it eliminates and the substitute it suggest. As it would include other non – positivist approach that is not interpretivist ,the description is not deceive. Positivism has its ancestry in the "Ontological basis of the reality , means that the truth exists independent of the Observer" (Landry and Banville, 1992; Myers and Avison, 2002). This statement is criticized by the concept of Interpretivism.

Approach of Research

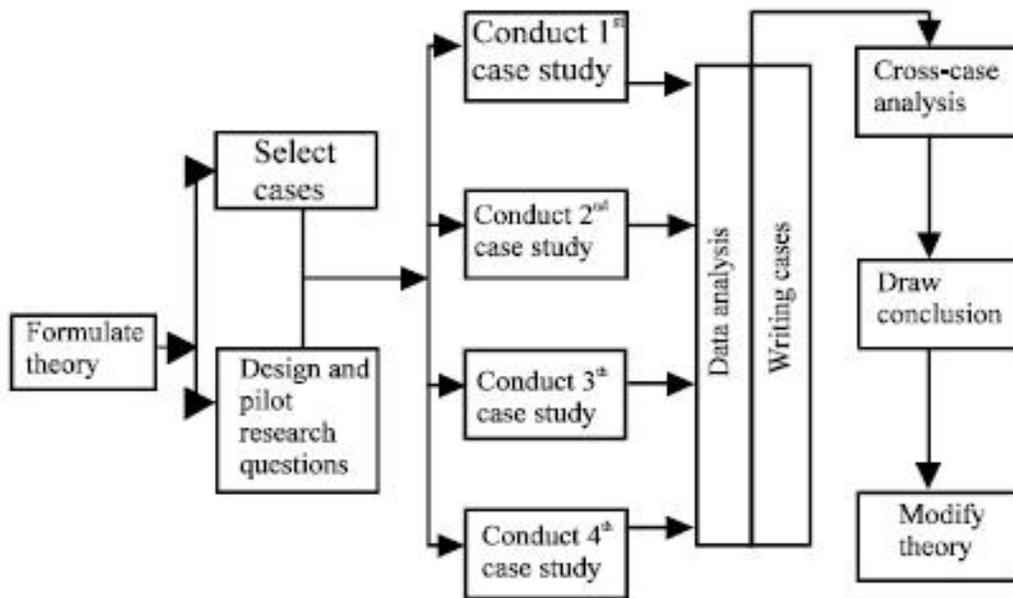
There are various varieties of research practices used to study a particular research crisis. By a thorough review of the literature (Brymanm and Bell 2007) ,The inductive approach can be used in case of a qualitative study and in this case a hypothesis should be created with the help of the already available data. Hence this approach may not be suitable for the study presently. This approach may not lead to the arrangement of any deeper theories or insights, but only the empirical summaries could be prepared with this approach (Alvesson and Skoldberg 1994). The deductive approach is used for a quantitative study and in this case, the surrounding facts is mostly a assumption basis and thus this approach may not be useful for our study. In abductive approach the available empirical information is taken and for this study, this approach is used as the ending acquired in this case may be useful to verify the findings of the earlier research.

Research Methods

Based on the research crisis, the technique of obtaining the study varies. A case study approach was taken into account to learn the style and determinants of FDI in Malaysia and Singapore. The suitability of the technique of the research is derived from the opinion of Morgan and Smircich (1980) that it is on the type of the social phenomenon being studied.

Case studies

A case study is defined as an "empirical inquiry that investigates a contemporary phenomenon within its real life context using multiple sources of evidence" (Anderson,1993).As, Yin (1989) suggests that a case is defined as "an event, an entity, an individual or even a unit of analysis". The case is also worried on the analysis of why and how the events takes place, so that the related realities could be caught and the variations in what was originally planned and what essentially occurred could be alleged. As a whole , the case study does not deal with the organization. But the research pays attention to a specific subject, aspect or a feature of analysis. In order to gain insight into trends in FDI and the determinants of the same is taken into account in this research. The particulars of these real life activities could be apparent by means of the evidence increased from multiple basis. This case study is an appropriate technique to increase the depth insight into the problem under examination, according to the opinion of Patton (1987). Case studies are mainly important and helpful in cases which are rich in data and helpful in gaining to a view in depth.



Steps involved in a case study (Noor, 2008)

Data collection Techniques

The technique of data collection is a vital portion in any research because imprecision in the techniques of data collections would unfavorably affect the consequence of the research and therefore gives results that are not valid. There are different varieties of data the key types are Primary and secondary data.

Primary data

This kind of data is taken from the straight responses, which are being taken from the people who are being interviewed. The personal feelings of these individuals, their experience, attitudes and their opinion are gathered by means of primary data. This kind of data is brought out from the measurements made in the laboratory, observations and surveys in the field etc.

Secondary data

By evaluating the available literature in the academics, the proof got from the already existing studies out there could be investigated and a definite trend and pattern could be got from such studies. The benefits of the of the secondary data are that it does not take into account time saving, costs, and efforts of the researcher and is unremarkable. The problems related with the collection of information could be avoided by the secondary data analysis and provides a foundation for comparison. The reliability of the basis, that has published the information at hand is not in the hand of researcher and the researcher may not be able catch the shade of the research purpose of this study. There are also some drawbacks involved with the secondary data collection. This happens because of the availability of studies, that would have been designed to capture data that already belong to to some other intention. The next drawback of this technique of information collection is that the data could be outdated. The validity of the methods and measures, which are used for the collection of data is not known to the researcher. The collection of



secondary data brings many basis like research articles ,Journals, Magazines, published reports, films, TV, Radio, newspapers, websites and books .

Secondary Data Handling

The reliability of the information may be mainly increased, if the data is taken from various basis and this is a conservative and brand approach used in the gathering of secondary data. A lots of possible basis can be taken in the gathering of secondary data. The main benefit of the technique is that all the data that is taken can be integrated or analyzed in a gathered and on a whole awareness.. Therefore, a holistic perception on the style and determinants of FDI could be investigated .There may be a combination of data from basis and set of information may be taken as the part of puzzle and then a ultimate understanding on the subject of private settings in the above told public networking spot could be reached. (Yin 2003) , this could develop the power of the study and every filament of the information could be better conceived.

The fit between the data chosen and research question for analysis.

The procedure by which the secondary data is situated is not simple at all situations. Therefore, there should be a successful proper fit between the research crisis at hand and also the information that is selected to examine the same. Although, it is most often repeated process where a research problem is projected, there must be a contemplation of the possible information sets and a subsequent cleansing and revision of the question which has reference to the available information or data. There could be more revisions based on the other information sources and only then the research question can be concluded. The most typical method in which secondary data is used for research is to begin with a question and hunt for the data sets that may be useful for the analysis of the question. One more technique may be to start from the watching at the secondary data sets which is available and then continue with the proceed with the action of formulating a question that may be examined by giving the data selected. Although the previous technique agrees with the conservative method of doing a research, the second way is helpful in case of instructions in class room. Though , both the techniques would create quality results. The sequence which is mentioned below can be followed using secondary data (Boslaugh) the conduction od research.

- Specification of the data to be collected (Boslaugh).
- Definition of the question
- Specification of the population and the variables

Methods of data collection

In a detailed study approach, the information gathering includes the selecting of some of the instances and figures on the research crisis in hand and then going on to eventual ultimate strong examination of the characteristics of these detailed studies or instances. Therefore , taken into account by the investigation of a small number of large issues, and also by distinct and evaluating the issues, the features of the occurrence can be apparent and the situations where they differ can also arrive later. Therefore the idea of concept of private issues in the social networking location, where research can be done well with the help of the approach of the case study.

For secondary data collection, a desk based approach can be used. As the worth and genuineness of the research is reliant on the techniques of collection of data, as observed by Jackson (1994), this way is an unremarkable technique as it grips the prose that has been issued earlier. In any case, there should be an critical assessment of the prose that has been gathered can be done in terms of its consistency and verification by making comparisons with other basis that are genuine (Creswell 2003). As a result ,



taking the background of the study into consideration, the data could obtain from the earlier published documents, academic journals, studies, reports etc.

Data Analysis

The cases being presented after the researcher will try to give a whole picture of the overall concept taken for the examination to bring the present circumstances on the use of private setting in the networking sites. The researcher would present his conclusions, based on the facts taken from the cases in Malaysia and Singapore. The study cases could be evaluated and balance in the light of the facts that are gathered for the present study. In the portion on conclusions and summary, the insinuation of the explanation and findings would be given on the basis of the facts available instead of providing new particulars. Therefore, the procedure of separating and sorting and the explanation of the data available quintessence of the case study.

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3.0. RESEARCH METHODOLOGY

3.0. Introduction

This chapter's goal is to offer a research design implementation made by the research is to provide a summary to analyze the impact of the theoretical framework of advertising on children set out in television in the earlier chapter. The important points in the research process is utilized and continue with a data collection explanation and data analysis methods engaged by the research adding the methods and approach in justifications. On accumulating the issues associated with validity and triangulation, reliability, limitations and consideration for the issues which are ethical are also

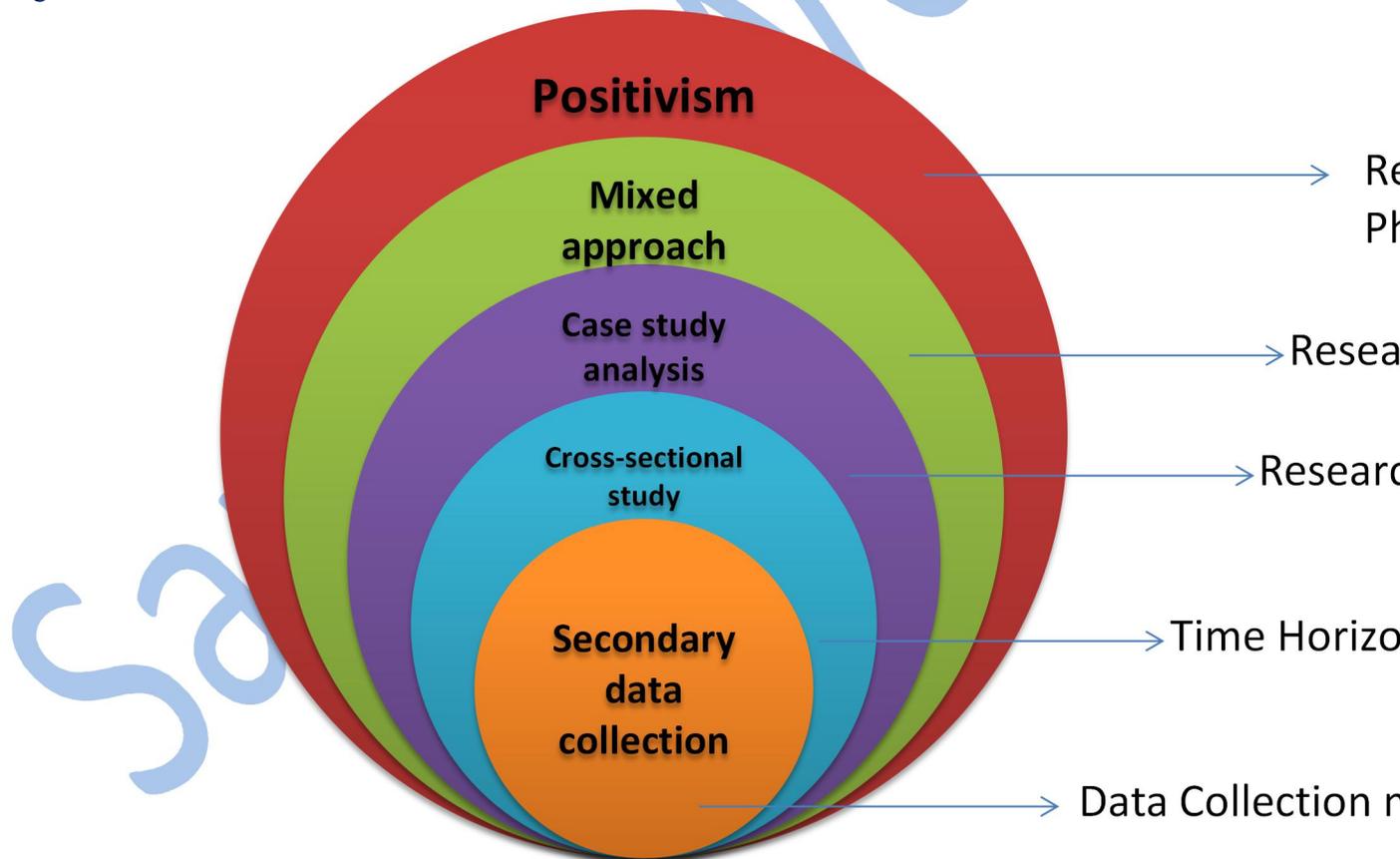
discussed in this chapter. (Flick, 2002). Silverman (as quoted in Hussey & Hussey, 1997) introduced the pure research methodology as mentioned below: "Methodologies consist to the research process with an overall approach, from the theoretical reinforcement to the analysis of the data and collection. Similar to Theories methodologies cannot be correct or wrong, only more or less useful" (p.54)

3.1. Research Process

The research questions have been introduced in the present study based on the active literature availability. Justification methodology was required to offer solutions to the research questions by providing solutions (Saunders et al 2003, pg 83.) defined a research process which was followed in the researching methodology was known as "onion" and the figure below. I represent the similar range of strategies, choices, and data collection methods and paradigms methods area adopted by the researchers. In Addition to it 'Describe the issues using the selection of data collection methods' (Saunders et al 2000, p.84) .

In line to establish a suitable research policy Saunderson et al (2007) model 'onion' was used initially and this model gives a backup for the researchers on knowledge development to facilitate the researchers to give the answer to the research questions. The 'onion' method is used in this research to clarify the cause for choosing each element layer wise , and how the research goals was helped was mentioned.

Figure: 1



Source: Adopted for Business Study from Research Methods, Saunderson, Lewis & Thornhill, 2003, Chapter 4, p.83

The following aspects have been represented in layers using onion methodology was adopted by the researchers.

1. Study of Philosophy



2. Study in approach adopted
3. Study in strategy/methodology
4. Period Horizons or period lines
5. Data gathering methods used

3.1.1. Study of Philosophy:

Saunders et al (2007) offered a research philosophy in the outer layers in the research orion. A research paradigm was introduced by Lincoln and Guba (1985) such as “What we think about the world is represented in Paradigms (but cannot prove). Our actions globally, includes the action taken by us as inquirers, cannot happen without references to those Paradigms” “As we think so do we act” (p.15). There after, as distinguished by Guba & Lincoln (1994, p.105), the basic ways of epistemological apart and ontological are guided by the paradigm guides together with the alternative methods for investigating with the researchers.

The Study of Philosophy on the technique used in visualizing about the knowledge improvement. (Saunders et al (2004, p.84). The current theory adopts ‘constuctionism’ as a epistemological view point which is constant with the goal and its nature of research (Crotty, 2007) Even though many articles are published connected to impact on advertisements on television for children, there was a highlight that effects the childrens behaviour, psychology. etc. in all the papers is the particular factor. The different factors that affect the children because of advertisements in televisions were investigated with an attempt in this theory. A variety of impacts in regard to advertisements in televisions on children was a crucial review by the researchers. Thus, with the goals the ‘constuctionist’ methodology was apparent.

3.1.2. Study of Approach

The study of approach indicates the use ofspeculation is clear within the design in research (Saunders, et al., 2000, p.87)..” Deciding what arguments is done with theory” (Mason (2002, p.179) was explained in the research approach. This makes the researchers to”

1. Taking a well-versed judgement on the study of design.
2. Supporting the researcher in the process of decision making on what will not and what will work and
3. Adjust the research design to provide the constraints, for example inadequate understanding of the subject to structure as hypothesis” (Sauders et al, 2008, p.89)

3.1.2.1. Inductive versus Deductive approach

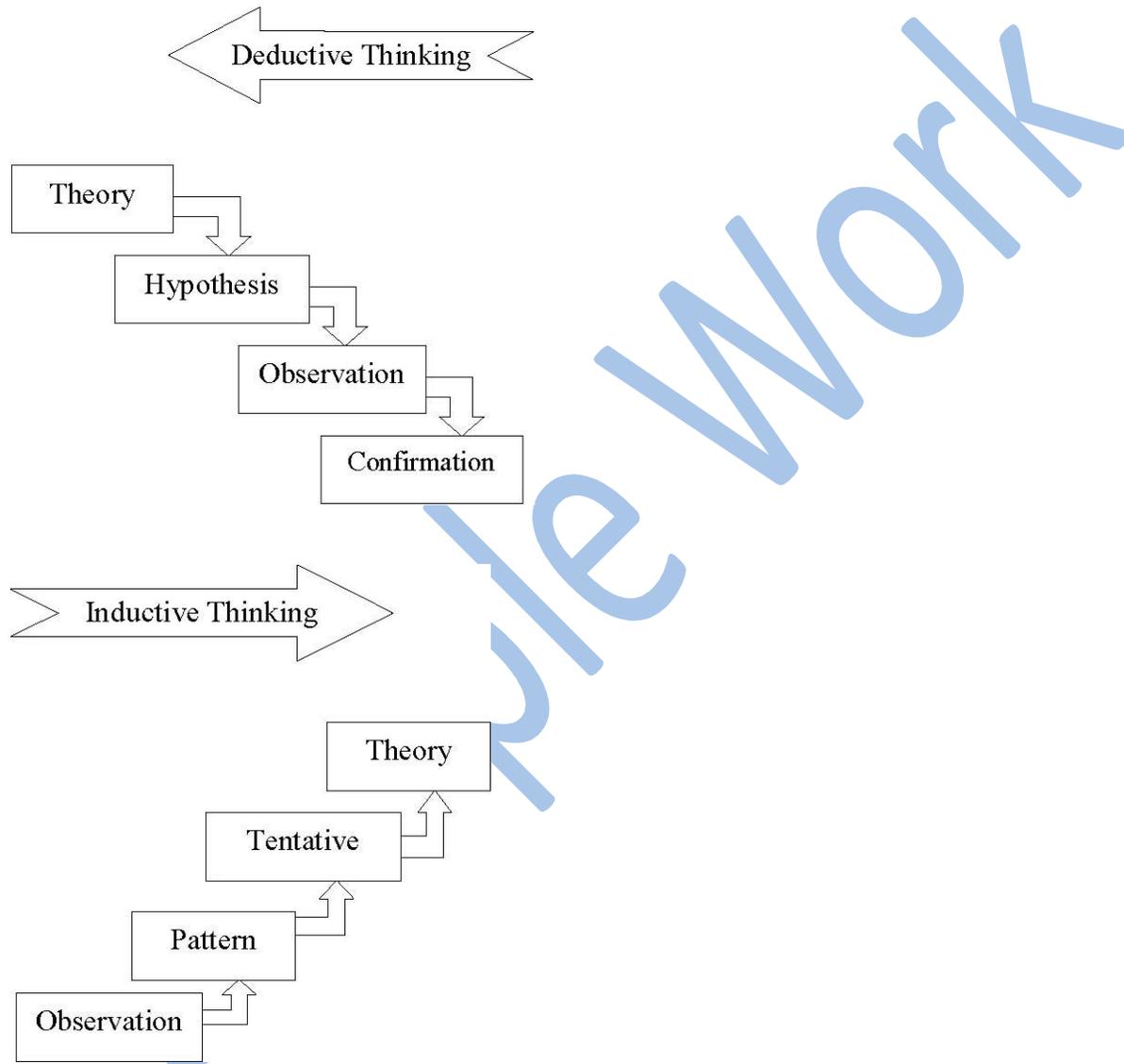
Sauders et al p.91, (2000), The Inductive approach helps the states to offer deep insights regarding the subjects mainly meaning human to events is attached. Secondly, the background can be directly analysed. Thirdly, it requires compilation of data’s on the qualitative aspects. Additionally, it allows more elastic structures to authorize changes of research importance as research Development: and recognizing that realization is apart of research process and lessen the concerns with need to simplify. The result of data analysis was developed as a result in the theory in which the data was collected through inductive approach as per the study. The blow of watching the advertisements on children in television was understood in the study of data analysis. The anxiety for generalizability is short and the situation within which there is a more understanding with the research is completed with the additional influences outcomes from the results in the research.

The Inductive approach goal is achieved to make use of all the projections is covered with the understanding of the conditions of understanding the clear structure of the problem in research. The inductive approach is exclusively in sequence with the system thinking and these projects more on the important unknown structures below the water line perhaps giving substitute explanations.



The goal for applying inductive approach is to certify that all the areas are covered after understanding the deep formation for the research problems. The inductive approach is particularly in direction of thinking systematically with an approach that gives a clear picture of the unknown structures lower than the water line probably instructive in other explanations. In the current theory, the blow of the advertisement in television on children was investigated by the researchers in various angles and also build a theory related to obtained results.

Figure 2: Deductive Vs Inductive Approach



Trochim (2001) Source: adapted

3.1.2.2. Qualitative vs. Quantitative study on design

Saunders et al. (2000) describes the study on the approach with a generic plan that guided the researchers to answer the particular research questions. There are a variety of research strategies..The study of



strategies will be a common plan of how the question(s) are answered in a research set by (Saunders et al. 2000, p.92). In the beginning stage of the study, an tentative research plan was followed to produce a deep understanding of the players of the phenomena within the universal complete research projects. The Qualitative case study is the research strategy. Merriam (1998, p.27) gave a clear understanding in the conditions that is used in the finished products. A case study for Qualitative is a concentrated holistic explanation and analysis of a social unit, single instance or phenomenon.

The meaning for qualitative research study was given by Hussey and Hussey (1997, p.12), as a way which adds more biased to nature and involves investigation and increasing the perception in order to increase the perception of human activities and social. In qualitative methodology the following description should be possessed.

1. To the active knowledge, researchers need to synthesize and review it.
2. The active investigation for situation or problems
3. This method is the answer for the problem.
4. New information generation
5. The words must be taken as a data element.
6. The Primary approach must be inductive approach in data analysis.
7. The theory development will be based on the outcome of the data analysis.
8. The best alternative method is the experimental method. (Leedy, 1993, p.140)

In the current study, the qualitative research was selected since the study was analysed with the data which was published earlier in order to discover and recognize reality (Guba & Lincoln, 1994).

3.1.3. Research methodologies

In the current study, in order to discover the results of the researchers, we use the following strategies such as analytical, non-empirical, conceptual and qualitative analysis. Sequentially to support the argument the researcher has to provide his/her evidence from the active information or facts. (Van der Merwe, 1996, p.290).

3.1.3.1. Conceptual chronological analysis

Further to the meaning given in the Oxford Advanced Learner's Dictionary of Current English (1986, p.727). "The model 'review' is defined as investigating critically or sympathetically to enter the mind again". In an endeavour to offer a theoretical base for this study, the current study took an relevant and general literature. It is to be understood that to provide explanation scientifically the research questions has to be highlighted. A complete re-evaluation in literature is available or for the earlier published work related problems of advertisements in television on children which helps the researchers to verify his/her results and also evaluates the result with the work of others. (Manamela, 1993. p43)

The current study is used for textual data such as texts, documents and conversations (Van der Merwe, 1996, p.283; Bryman, 2003, p.369; Babbie & Mouton, 2001, p.77). In the current study, a large range of documents are utilized such as scholarly books, professional journals, monographs, virtual outputs (internet source), dissertations, official documents (obtained from the private and state source) and mass medias.

3.1.4. Research technologies

3.1.4.1. Analysis - Case study

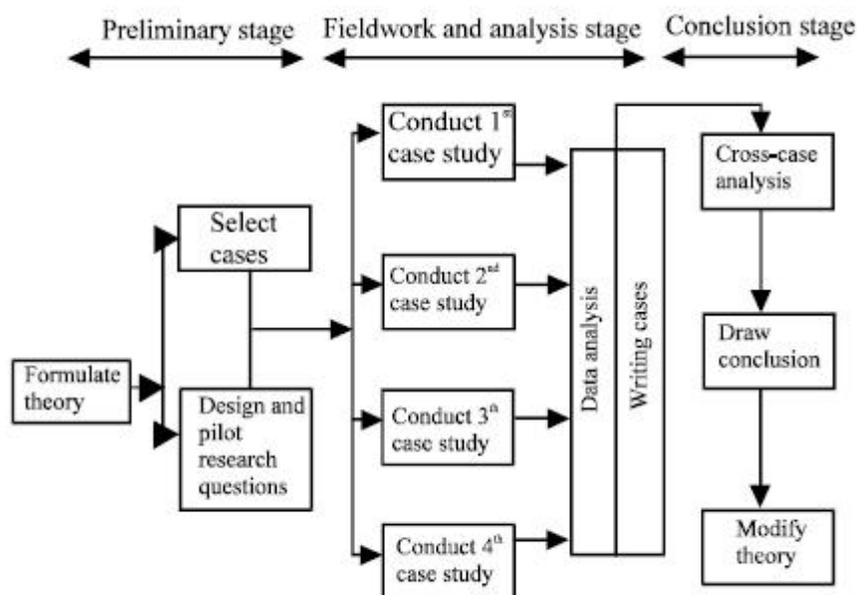
In regard to the problems in research, various techniques of understanding would differ accordingly. In the Morgan and Smircich (1980) the views is on the sort of social phenomenon studied of being a



appropriate method for the researchers as mentioned. To find the blow on the advertisement in television on children the case study approach was used.

3.1.4.2. Case study.

Yin(1989) mentions that a case is known as “ an individual” ,”an entity”, “even a division of analysis” or “ an event” .In real life context a “empirical inquiry investigated by the contemporary phenomenon uses numerous sources of evidence”. (Anderson, 1993, p.152).The reasons ‘how’ and ‘why’ events happens area all” and what really happened could be apparent” are the apprehensive to the case studies. The organization completely is not dealt by the case study. Specific issues or unit of analysis attribute are considered more in this study. In order to increase the gain in the range of problems because of watching television among children’s, a case study methodology was selected..The particulars of the activities in real life could be apparent only by evidence got through multiple resources. In the case study according to Patton (1987), the suitable method used to gain a deep insight to investigating the problem. The case study is the main part and used for the cases which there are loaded with information that helps in gaining a detail view.



Steps concerned in a case study (Noor, 2008)

3.1.5. Time durations

The two types of type durations are cross-sectional and longitudinal. The longitudinal time duration collects the data’s for a extensive period of time. The data is collected one point of a time in the case of a cross sectional study design. Therefore, comparing the cross sectional study, the longitudinal has got a extensive time frame.

The study of time horizon was not restricted to a definite phase of time. The study depends on the data collection from the secondary than from the primary. Unless the researcher is able to complete the research questions, the research also used all the articles which have a variety of impact for children watching television.

3.1.6. Collection of Data:

3.1.6.1. Collection of data methods

The process for data collection is a critical part in any research because exactness in the data collection methods would give a negatively effect in the results of the study and therefore they provide a results which are unacceptable..There are several types of data’s which are Primary and Secondary.

3.1.6.2. Primary data



This type of data can be achieved only through direct responses got from the individuals interviewed. The Primary data means, their feelings, personal experience of the individuals gathered together. Surveys obtains all types of datas and its got through the remarks in the field and measurements and analysis made in the laboratory.etc.

3.1.6.3. Secondary Data

The research process is fully dependent on the secondary data.or a position to endeavour for existing data users in answering research questions. (Kiecold & Nathan, 1985).The method for data collection is different in the primary research methods and secondary data analysis methodology. Primary data collection always needs the investigator to gather the information from the research participants answering the exact answers to the research questions.

Secondary data collection refers to a research process or a set of endeavours that uses existing data to answer research question (Kiecold & Nathan, 1985). The process of data acquisition differentiates primary research methods from Secondary data analysis methods. Primary data collection requires the investigator to obtain information directly from research participants to answer a specific research question, where as Secondary data analysis requires the application of analytic techniques to data already collected (Kiecold & Nathan). Secondary data analysis is conducted within an existing data set to answer research questions not posed in the original or primary study. Because many studied contain more data than the principle investigators can analyse, a variety of research projects can be conducted using pre-existing data (Kiecold & Nathan, 1985)

3.1.6.4. Advantages and disadvantages of secondary data

The primary advantage is its potential for resource savings and cost effectiveness. Often, the database provides the investigator with access to information that took months or even longer to collect. Hiring and paying personnel to collect data are eliminated, and with adequate computer storage and memory, the investigator can reduce the number of additional support persons required (Mainous & Hueston, 1997). Secondary data analysis also circumvents other data collection challenges such as findings appropriate participants (Kiecold & Nathan, 1985) and obtaining large enough sample sizes to yield convincing results.

The present study used secondary data sources because there are large enough data available on impact of television advertisement among children to draw meaningful conclusions. The present study used exploration studies as the researcher tries to investigate the possible problems that children faces due to watching television and it also analyse how, the advertisement targets children.

Further, Secondary data analysis (SDA) often uncovers aspects of a research problem that need further elaboration such as hypothesis revision, or existing measures that need to be refined and improved (Hyman, 1972; Nicoll & Beyea, 1999). This is one of the most important contributions of secondary data analysis in knowledge management. The analysis of existing data can serve as a pilot study whose purpose is to define a purpose more dearly. The pilot study can then lead to the generation of hypotheses for a subsequent primary study (Mainous & Hueston, 1997; Nicoll & Beyea, 1999). Operationalizing major concepts by using SDA in these preliminary studied then contributes to theory development (Pew et al., 2000)

3.1.6.5. There are several disadvantages of secondary data collection

The major disadvantage of secondary data is that the data were originally obtained for another purpose, so the investigator using secondary data has no control over the data collection process. This lack of control may compromise scientific rigor by reducing data accuracy (Nicoll & Beyea, 1999). The secondary data investigator also is dependent on the original researcher's decisions about the population studied, sampling design and the specific measures used in data collection (Mainous & Hueston, 1997).

Additional disadvantages to Secondary data analysis are that the data may not be reported in a form readily usable by the investigator conducting the Secondary data analysis, the data may be outdated or the quantify of the data may be so large that the statistical tests prove significant but the results are less meaningful (Nicoll & Beyea, 1999).



3.1.6.5. Source of secondary data

The research will be based on qualitative and quantitative secondary research. Secondary data will be a good source as lot of valuable data is available in the forms of academic journals, books (combination of e-books and books available in the University library) and various researches like:

- Researches published in 'Consumer International' conducted by various campaigns against marketing to children,
- Researches carried out by 'APA' (American Psychological Association) about the impact of advertising on children,
- Studies and surveys carried out by 'Paediatrics' (official journal of the American Academy of Paediatrics) on the impact of media on behaviour and social well being of children,
- Studies discussed in various academic journals like Journals on Advertising.

3.1.6.6. Handling of the secondary data

The credibility of the data could be greatly increased if the data is obtained from multiple sources and this is a conventional and trade mark approach used in the collection of secondary data. Many potential sources could be used in the collection of secondary data. One of the advantages of this method is that all the data that is obtained can be integrated or viewed in a collective and overall perception. Hence a holistic view on the television advertising viewing impacts on children could also be analyzed. There would be an aggregation of the data from the sources and every set of data would be considered as the piece of the puzzle and then a final understanding on the issue of impact of advertisement with particular reference to television among children would be arrived. This would enhance the strength of the study and every strand of the data could be conceived better (Yin, 2003).

3.2. The fit between the research question and the data chosen for analysis

The process by which the secondary data is located is not straightforward at all circumstances. Hence there should be an achievement of a proper fit between the research problem at hand and also the data that is chosen to analyze the same. As it is most often an iterative process where a research problem is proposed, there should be a consideration of the potential data sets and a subsequent refining and revision of the research question with reference to the data that is available. There can be further revisions based on the other available data sources and a then the research question can be finalized. The most archetypal manner in which secondary data is used for research is to start with a question and then search the data sets that would help in the analysis of the question. Another method would be to start from looking at the secondary data sets that is available and then proceed with the formulation of a question that could be analyzed by means of the chosen data. Though the former method agrees with the conventional way of doing a research, the latter is useful in case of class room instructions. However both the methods would produce quality results. The following sequence could be followed in the conduction of research using secondary data (Boslaugh)

- Definition of the question
- Specification of the population and the variables
- Specification of the data to be collected (Boslaugh).

3.3. Modes of data collection

In a case study approach, the data collection involves the choosing of some of the examples and illustrations on the research problem in hand and then moving on to eventual intense investigation of the attributes of these cases or examples. Hence by the analysis of a less number of big cases, and also by comparing and contrasting the cases, the characteristics of the phenomenon can be perceived and the circumstances where they vary could also be arrived. Hence the concept of television advertisement on children could be researched well with the help of the case study approach.



A desk based approach would be used for the secondary data collection. As the value and authenticity of research is dependent on the methods of data collection, as observed by Jackson (1994), this method is an unobtrusive method as it handles the literature that has been published already. But there should be a critical evaluation of the literature that has been collected should be done in terms of its reliability and verifiability by making comparisons with other sources that are authentic (Creswell 2003). Thus, considering the background of the present study, data would be obtained from previously published reports, case studies, documents, academic journals etc.

3.4. Analysis of the data

After the cases are being presented, the researcher would try to give an overall picture of the whole concept taken for the analysis to present the situation on the impact of television advertisement on children. Based on the facts derived from the cases in the US and UK children, the researcher would present his conclusions. Also the study cases would be compared and contrasted in the light of the facts that are collected for the present study. In the section on summary and conclusions, the implications of the interpretations and findings would be provided on the basis of the existing facts rather than providing new facts. Hence the process of sifting and sorting and the interpretation of the available information is the essence of the case study.

3.5. Summary

The chapter addressed the research process and design of this study. The present study adopted constructivism, as a research philosophy, inductive approach of a qualitative study, and multiple case studies. Data was collected using only secondary sources. This concluded the design of the intellectual puzzle for the study

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3.0. Research Methodology:

3.1. Introduction:

This topic focuses on the technique adopted by the researcher for the objective of the dissertation. The objectives and goals pointed out in the preface of the report influences the factors of this research methodology. Methodology is defined as 'The analysis of, the rationale for the methods utilized in the given study' or for a particular method (Feinberg et al., 2000). The research questions, the hypothesis statement and the research design taken up by the study is explained vividly by the topic. The data analysis procedures and collection of data is also explained in this topic.

3.2. Statement of research question:

Research queries can be dealt by inquiring and understanding the following associate search

- In order to meet the domestic demands of robustly arising Indian economy, in what way do we establish the significance of growth of alternative sources of energy?
- **What is the present position of energy in India?**

3.3. Hypothesis to be tested:

- Ascertain the requirements for the procedures to counteract this increasing insecurity of energy.
- Confirm the increasing crisis of energy in the Indian scenario.
- Substantiation of the investments and growth in the replenishing sector of Indian energy.

• 3.4. Research Design:

This problem encourages the evaluation of renewable implementation of energy in the nation and the assumption of the requirement for the need of energy security in India. The validation of the study in topic one, scrutinize a particular problem. The crisis of the study arises from this focal point. Research could be hypothesis based, where the hypothesis testing is the most significant spotlight of the research or either objective based, where the goal is the spotlight of the research. In the realistic research,



the hypothesis is more of an elucidation as against a set law which is testable. A design is utilized for the configuring the research to highlight how all the main components of the research project the groups or samples, treatment, measures along with programs. The researcher arrives out at obtaining the facts as against helping in their deduction and is said to be of the previous kind. Configuration of the research and to highlight the major components of the research project the groups or samples, procedures, programs as well as treatments are done with the help of design. These techniques of assignment functions are together to tackle the central research crisis.

The main focus of the research is that of accurate answering of the questions and also with validity and objectivity. The research design is fundamentally a plan which has been adopted to answer the questions of the research formally put forth in this report. It is consequently the planning of situations for compilation and investigation of data. This preparation is repeatedly finished in a method which makes us to merge relevance to the intention of the research.

Connection to the development and identification of protocols along with the logistic preparations undertaken to make it sure that the study proceeds without any hindrance are the two significant functions embarked on by the research design. Involvement of ascertaining the objectivity and validity of the research is another important role of this procedure. The following aid is utilized by the research design:

Getting acceptable and accurate answers to the forwarded questions of research and validation of the method.

To put in place the research schedule and design needed to finish the project embarked upon and to conceptualize the plan of operation.

3.5. Research Methodology:

Highlighting the diverse measures to be aware of the prevailing scenario of energy security of India will be the involvement of the research and also how they again persuade the national economy. The understanding on the prevailing circumstance of the Indian energy and the promotion is enabled by the methodology used. As recommended by Fisher (2007), the pragmatic approach is concluded to be the greatest course of study. For ascertaining the cause and effect relationship among the requirement for renewable measures of energy is made more easy by breaking the research into ingredient parts. The observation of exhibition of precise patterns across the common behavioral pattern and the cases can be confirmed is helped by the above.. The pattern of research to emphasize the requirements for sources of renewable energy in the nation is put forward by these patterns.

The two strategies of research which can encourage this idealist design have been brought forward by Bell and Bryman (2007) :

1. Deductive versus Inductive approach
2. Quantitative versus qualitative approach.

Table: Type of research proposed

Type of Research	Action proposed	Characteristics
Idealist research	Encouraging measures of production for energy which is renewable and recognition of the features persuading energy security in India as well as estimation of the features..	Cause and Effect Quantitative vs qualitative approach Deductive vs inductive approach.



Adopted from (Fisher 2007)

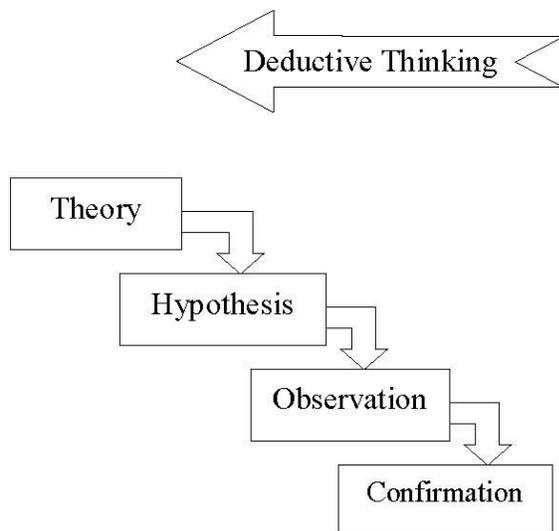
In sequence to supply a rational flow of thought to turn up at a particular aspect of the problem, information has been gathered from secondary sources, and also been scrutinized and construed, in this case with the objective to:

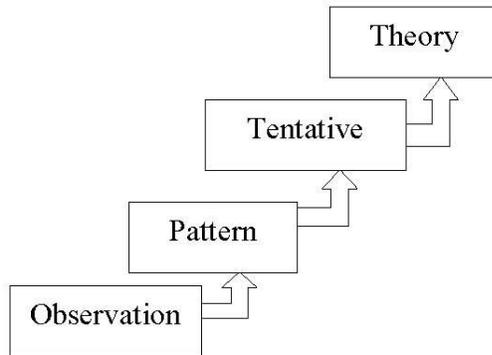
- The likelihood of foundation of a retainable renewal energy sector in India by SWOT analysis.
- To spot out the steps taken with the intention of encouraging energy security in India in connection to global viewpoint on estimated requirement of India and the distribution of energy.
- To spot out the prevailing situation of the energy sector in India.

3.5.1. The Deductive versus the Inductive Approach:

The deductive approach as a test of theories to encourage their research area is the definition propounded by Marcoulides(1998). Having a set of theories in mind which assists in the configuration of the hypothesis and their origin, the researcher commences his work and subsequently, the hypothesis is tested by the research. On the other side, the inductive approach, pursues from the form concepts and theories and empirical data on the source of this data Marcoulides (1998).

Figure 1: Deductive Versus Inductive Approach





Source: adapted from Trochim (2001)

The disparity amid the inductive and the deductive approaches is that one which observes a bottom-up approach and the other top-down, similar to the above figure shows. The deductive approach is observed by this study for two reasons. It is well ahead of the researcher's scholastic knowledge to recommend a theory and then test it with the help of observation along with the expertise of the researcher in the initial phase. The deductive approach seems more suitable for the intention of the study from prevailing literature and then find out how they decipher into practice in an attempt to recommend strategies for development and validate prevailing practices in the second phase.

3.5.2. The Qualitative versus the Quantitative Approach:

The prearrangement of quantitative devices for the scrutiny of data normally begets from the physical sciences in such a manner so as to ensure as much as possible, generalization, reliability as well as objectivity along with reliability (Creswell, 2003). The researcher is objective here and the outcomes of the research are . The other side of the coin is that Qualitative tools are projected in non-numerical design and the foundations of scrutiny of content amid other things . The majority of the results acquired by this process have been categorized to be prejudiced in nature.

The elucidation of qualitative analysis of data by Creswell(2003) has highlighted the fact that it permits the researchers to carry out exhaustive investigations of a specific observable fact and the worth of qualitative scrutiny of data cannot be overlooked. The fact that the researchers are allowed by qualitative research to carry out exhaustive investigations of a specific occurrence have also been highlighted by Creswell. Identification of main determining factors of operation research (Biklen and Bogdan, 1992) is made possible by the above method . It is also pointed out that writing expressively so implicit knowledge may effectively be communicated with the help of thick, rich portrayal (Myers,2002) and to make the method of study reachable .

It is feasible to categorize characteristics , spot out diverse models of statistics which elucidate what has been noticed (Huberman and Miles 1994)and add them as well with the aid of quantitative methods.



Combination of qualitative as well as quantitative methods of research are the goals of this research. It aided in replying the e questions of of structural actions of high firms of impact and in the quantification of occurrence of features. Since they facilitate detection of the prevailing scenario of the Energy of India along with the measurement of their inputs to the economy, this is pertinent to my research. The regulatory structures ascertained which assists in the confirmation of the methods through which these systems connect one variable with another (Fisher 2007) and determination of the diverse policies recommended is done with the help of qualitative approach. This will facilitate depiction of the findings made by the study which encourage renewable production of energy as well as persuading the energy security of the nation. For promotion of quantitative, qualitative and deductive study, the preceding papers, c regulatory bodies and the sets of data from diverse commercial sources have been utilized. These foundations have been identified as one of the safe data source (Lewis, Saunders and Thornhill, 2003) and as also one of the most conventional. The quantitative analysis acquired from formerly accumulated quantitative data established by the journals in this section. This data was analyzed to study group wise behaviour and their reasons. All these are inclusive of data display, data reduction, data collection, substantiation of the above mentioned findings and arriving at a conclusion. It has been highlighted by Huberman and Miles (1994) in a bid to categorize the processes in a qualitative analysis of data. The data which has been gathered from the variety of journals and reports was summarized to sort out those which don't meet with the specified criteria. The data was again altered and made more simple to make the data more controllable in the study. Data was portrayed in the forms which assists in the in-depth understanding of the diverse elements which were studied. The ultimate data confirmation was done to make it sure that the starting conclusions were supported, pragmatic as well as authenticated and the required conclusions of nurturing methods were ascertained..

3.6. Data Collection:

The significance of a research according to Jackson (1994) is connected to its methods of data collection and significantly, whether or not it is inclusive of both primary and secondary data. Basically the secondary data is basically gathered through desk-based research. The ambiguity in the processes of collection of data would unfavourably affect the study results and thereby provides results that is unfounded because the process of collection of data is a vital feature in any research

3.6.1. Increasing accuracy of secondary data:

Numerous prospective resources could be utilized in the compilation of secondary data. If the data is acquired from diverse resources, the trustworthiness of the data could be increased abundantly and this is a trade mark and conventional approach utilized in the compilation of secondary data. One of the benefit of this process is that all of the data that is gathered can be incorporated and observed in a overall and combined perception. Therefore, on the whole view on the crucial operational determining factors which endanger energy security could also be scrutinized. Each data set would be measured as the piece of mystery and there would be a summation of the data gathered from the resources. This would create the possibility of every string of the data to be understood in a better manner and develop the power of the study. (Yin, 2003).

3.7. Data analysis:

The analysis of data has been executed with the help of SWOT analysis.

SWOT which stand for Strengths, Weaknesses, Opportunities, and Threat is faced by any divisions or sectors. SWOT analysis is utilized in the creation of strategic substitutes from an analysis of situation and it is an uncomplicated structure. The SWOT analysis has made it probable to concentrate and handle



strategic scenarios inside a very restricted time period (Jackson et al., 2003). SWOT focuses on the problems that potentially have the capacity to make the highest effect. Edmund P. Learned initially developed the SWOT framework.

The fitting of a SWOT analysis into a situation of strategic analysis is portrayed by the following figure.



Adapted from (Jackson et al., 2003)

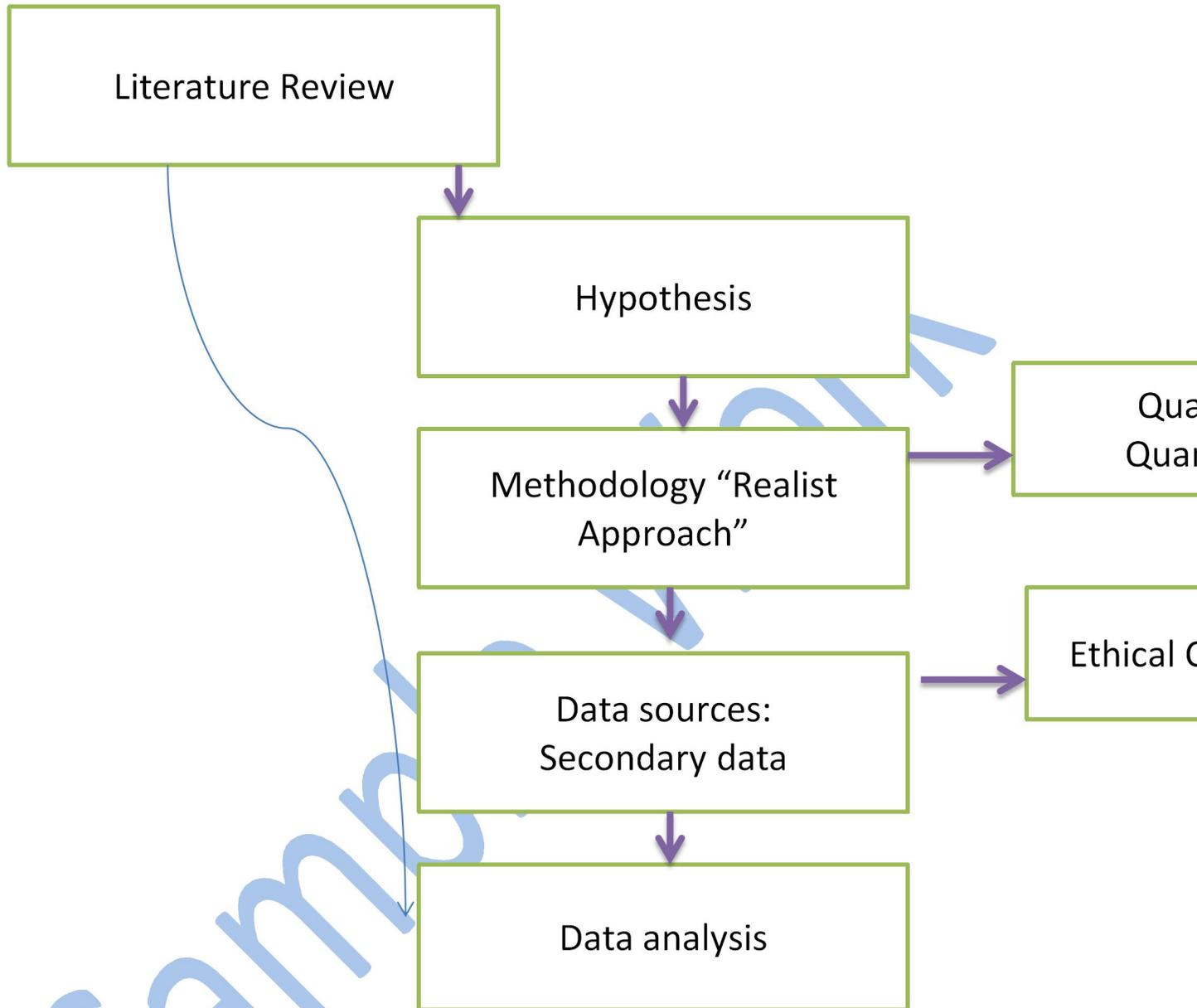
3.8. Ethical Consideration:

Crandall and Diener (1978) has recognized one of the major areas of Moral contemplation. Ethical problems arose at diverse phases throughout the process of research and the subsequent reasons are connected to this research. All these are inclusive of, whether there is dishonesty, whether there is a mishandling of information and whether there is shortage of consent informed. Right through the episode of this research, these characteristics were taken into consideration.

It is visible all the data compiled and utilized has been highlighted in the bibliography and that all the data has been referenced properly. No efforts has been spared by the author to make it sure that the views projected in this document do not have any conclusions laid down and are prejudiced.

3.9. Conclusion:

The hypothesis was improved in conditions of the review of literature and objectives of research alongside a research hypothesis which is connected to the question of research. The pragmatic approach was implemented efficiently as it matches the nature of the research. Throughout every step of the research, issues of morality were taken into consideration. The research population was determined upon and consequently an amalgamation of quantitative, qualitative and deductive approach of research was utilized to realize the objectives of the research as well of hypothesis testing. The data collected are now scrutinized to arrive at conclusions which are relevant.



The research methodology that is perfectly matched for this study utilizes a majority quantity of secondary data as disputed by this topic. The outcomes of the analysis as derived from the diverse resources revealed in this study is presented by the next topic.

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Chapter – 3

Research Methodology

3. Introduction

The present research highlights about the strategies for small scale business in India and the role of mobile phone industries. In order to address the research objectives and questions, a logical methodology was therefore important. Thus, the present section deals with various research methodology used for the present study. In addition, the present section also addresses the statistical analysis part of the data that has been collected. , -Further interview guide also added in the methodology. In addition, issues related to



accessibility of the study, duration, and consent procedure, delimitation and scope of the thesis are also been discussed. Further in the research methodology the limitation of the study are also discussed-

To facilitate the process, this chapter is categorized into following three sections

1. Research Design
2. Data Collection Methods
3. Data analysis methods.

Research Design

Research design is a “*framework or a blueprint for conducting the marketing research project that specifies the procedures necessary to obtain the information needed to structure and solve the research problem*” (Malhotra & Peterson 2006 p. 71).

The present study used inductive approach in order to arrive at general conclusion of the data collected. Interviews were used to collect data in order to explore the business use of mobile phones among small scale entrepreneurs. The results obtained from this data would help the researcher to formulate a theory. Moreover, for a small sample of subjects, inductive research would be more appropriate. In order to establish different views of phenomenon through different data collection methods, mostly inductive research are used on qualitative method (Easterby-Smith and Lowe, 2002)

With this background, the present study adopted qualitative techniques as a main approach to collect the data. Although a balance between several variables and conceptualization of the available statistical figures are arrived when using quantitative data, the qualitative data helps in depth understanding of the specific situation. Qualitative data, mostly involved collection of non-numerical data such as feelings, knowledge, experience and opinion of several respondents. In addition this method also facilitates the researcher to changes of research as the research progresses (Saunders et al, 2003). However, there are also several disadvantages when using qualitative such as lack of generalizability, subjective nature, low reliability, cannot make systematic comparisons and depends on researchers personal attributes and skills (Reason & Rowan, 1981)

Research Strategy

In the present study researcher adopted Ethnographic interviewing techniques. Spradley (1979) described ethnographic interviewing as “particular kind of speech event” (p.18). Ethnographic research with an area of knowledge it connects important personal experiences (Barbara, 2003). In ethnography research, there should be flexibility in the whole research process and responsive to change.

Further the study adopted exploratory study, as it enables the researcher to find out ‘to seek new insights, what is happening, in a new light to ask questions to assess’ phenomena’ (Robson, 2002). In this type of method, researcher collect in-depth information about the domain, the researcher conducts focus group interviews or talk to experts. For the study, researcher adopted in-depth interviewing and use of semi-structured interview guide allows the researcher to be more flexible and adaptable to changes and also gain valuable insights with a degree of intensity (Saunders et al., 2003).

The research design is as follows:

Since the present discusses about the use of mobile phones for the small scale business development, the study identified the business people who uses the same. In the present study, to make study more meaningful a small scale business entrepreneur, who uses mobile phone for part of their business are



selected, from Chunampet rural area, 120 kilometers away from Chennai district, Tamil Nadu, India. Using in-depth interviews, the study collected the various uses of mobile phones for business. Secondary data was collected with respect to AirTel business and marketing strategies adopted in order to penetrate the rural market in Tamil Nadu, India. This would throw the light on different strategies adopted by AirTel. The results obtained from this study were used to for recommendation to AirTel service industry.

Sampling

‘*Sampling* techniques provide a range of methods that enable you to reduce the amount of data you need to collect by considering only data from a subgroup rather than all possible *cases* or *elements*’ (Saunders et al., 2003, p. 150). There are different types of sampling method available such as snow ball sampling, systematic random sampling, criterion sampling and purposive sampling. In the present study purposive sampling methods was to select the study subjects and this method was extremely useful when the objective was to understand in depth information and also sample size is very small (Neuman, 2000). In this technique, with specific purpose in mind the sampling is done and also when sampling for proportionality is not the primary concern this method is adopted.

In the present study, researcher used qualitative research design, with in-depth investigation in a small number of people. In addition the study used purposive sampling method rather than random sampling. Since ‘the emphasis on quality rather than quantity, the objective was not to maximize numbers but to become “saturated” with information on the topic’ (Padgett, 1988, p.52). The respondents selected for the study was from small rural area located in Tamil Nadu State, Southern part of India. Since the purpose of the study is to critically examine the perceptions of the subscribers about the usage of mobile phones in general and Airtel marketing strategies in particular. For the present study traders (small scale businessmen) were interviewed.

3.5. Data collection procedures (sources of data)

To fulfill the study objectives, for the present study, primary and secondary data will be used for the research analysis.

1. The use of secondary data will explore different strategies (marketing and business strategies) adopted by the Airtel to enhance and retain customers.
2. Primary data collection will be based on the interview method among small scale business owners to get deeper insight about the usage of mobile phone in their business.
3. Secondary & Primary data will illuminate the different strategies adopted by the Airtel and mobile phone usage.

Primary data collection

In the absence of data from secondary sources, the researcher collects primary data collection method. There are three different techniques are used to collect the primary data which includes, experiments, surveys and observations. The choice of method relies on the availability of money and time and also influenced by the nature of the problem. In the present study, researcher used interview method to collect primary data (Gemmy Allen, 1999).

In-Depth Interview

In-depth interviewing was used in the present study. As described as Kahn and Cannell (1957) “*a conversation with a purpose*” (p.149). In addition, in order to discuss between two or more people, an



interview is the best method as described Kahn & Cannell (1957). To gather valid and reliable data relevant to the research objectives and questions, in-depth, qualitative interviews are excellent tools. Hence, an in-depth interview are better described as an discovery-oriented, an open ended method. This method helps to obtain in-depth information on the domain from the perspective of participants such as their feelings, and views. In addition, with some degree of intensity, in-depth interviews are usually used for exploring an area of research.

Interview guide

It is also noted that in-depth interviews, there is no need of any specific questions to work. However, to get the flow of answers, tentative interview guide was prepared with set of questions. This interview guide provided some structure to the interviews, although they treated as conversations during which the interviewer drew out detailed information and comments from the respondents. “one way to provide more structure than in the completely unstructured, informal conversation interview while maintain a relatively high degree of flexibility, is to use the interview guides strategy” (Patton as cited in Rubin & Babbie, 2001, p.407).

Hence, for the present study, the semi-structured interview (open, semi-structured interview) guide is prepared based on the research objectives of the study. It does allow adding new questions and interviewee can answer in whatever way they feels to answer the questions but still covering the same areas of data collection. Before starting the interview, brief introduction of the study objectives was explained to the interviewee and then very general open question about the topic of interest was also asked. Interviewee can answer the question in whatever way he wants to answer and thus no fixed pattern has been mentioned for asking the questions. This will bring the higher internal validity for the present research. Interview were recorded by taking notes and also recorded simultaneously since not everything can be written down during the interview and further interview was took place at comfortable place that both parts felt comfortable. For the present research, sensitive topics and no personal information are discussed. The interview guides are included in Appendix at the end of project. More structure eases the researcher’s task of organizing and analyzing interview data. For the present study, interviews conducted among particular rural area in Tamil Nadu

Design and Pilot interviewing questions

As the interview was the primary data gathering instrument for the research a semi-structured interview was chosen where question were carefully designed to provide adequate coverage for the purpose of the research. Major questions were developed in the form of a general statement which was then followed by a sequence of sub-questions for further probing. The questions were then piloted with several business people, to identify ambiguities, helping to clarify the wording of questions and permitting early detection of necessary addition or omissions.

Data collection schedule

The depth interviews were conducted over 2 weeks period and last between 30 and 40 minute. Before starting the interviews, appointments were fixed among the interviewee and attempts were made for the timely and appropriate completion of the same, so as to ensure the maximum response rate.

Secondary Data collection

Researcher use desk based research for the secondary data collection. As discussed by Jackson (1994), the value of research is associated with its data collection methods, although primary and secondary data collection has been included in it. This method is an unobtrusive, as it depends on the previously published academic literatures, theories and also the location of pertinent literature. In order to make sure, the collected literature are verifiable and reliable, the researchers should be able to critically evaluate those literatures by comparing with other different authenticated sources (Creswell, 2003). Hence, for the



present study, considering this background, the data will be collected through previous reports, case-studies, news papers, documents and academic journals.

Secondary data was collected from different website, annual reports, books, journals and articles, websites, newspapers, magazines, case studies. The aim of this data collection is to find out the related data regarding strategies adopted by the Airtel. The data thus obtained will be an essential part of the dissertation topic.

Generalizability of the data collected

Generalizability of the results, with reference to qualitative research is very difficult, particularly the present study was based on the case study approach where small group of people were interviewed. In addition, these people belong to one single rural area where they have certain characteristics with certain situation (Bryman & Bell, 2000). However the present results could serve as guidance for the researchers who do similar kind of study or situation or for the firms who belong to same size and this type of generalization is called as analytical generalization, according to Kvale (1996).

3.6. Accessibility to data collected

As mentioned above, the researchers have been granted the right to access and publish all the findings that are relevant to all ethical requirements.

3.6.1. Consent Procedures – Ethical Issues

In any qualitative research, researcher has to maintain the ethical issues such as confidentiality, informed consent and consequences for the interviewee. Hence for the purpose study, participants were informed about the investigation purpose and the important study design features. In addition, in the present study, through computer based data where identification codes are allotted to the interviewee and names are masked. Consent forms to get their willingness to participate in the survey were issued prior to the survey. To ask questions related to the survey they were given ample opportunities. Meanwhile, interviewers will also explain the purpose of the study and their importance in part of this research.

3.6.2. Data analysis

To enable to access reliable and quality information, recorded interactions got translated word by word. Data was analyzed using the data displays method. The collected data was summarized and simplified as this process aims to transform and condense the data. Matrices method was used to display the data due to its number of advantages it poses such as meaningful conclusion, easy to generate, and helps in analytical thinking. In addition, that are displayed are presented in the form of thematic analysis approach.

Summary

The chapter present road map for the entire study being conducted. In the present section, several techniques used for the study such as proper selection of research design, data collection methods such as in-depth interviews were highlighted. In the later sections, the data collected through these methods are analysed to generate the results. The secondary data plays a significant role for analysis. However, in gathering valuable primary information, the significance of this research methodology chapter needs to be addressed. The successful completion of any research study, there is a need for reasonably written methodology in a structured format and this research also realized and addressed the same in this chapter.

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APPENDIX

Interview guide [Tentative questions]

1. Do you think mobile phone add value to your business?
2. Do you think your business has improved significantly after using mobile phones?



3. Could you list the advantages of using mobile phone for your business?
4. Did you feel any disadvantages on mobile phones?
5. Do you think it is expensive to pay for mobile bill? Or it is worth?
6. What facilities do you like to have in your mobile phone?
7. Before using the mobile phone what is your time spent for your business?
8. After using the mobile phone what is your time spent for your business?
9. Do you think your business profit has significantly increased due to mobile phone?
10. What improvements and recommendation would you like to give for the mobile phone companies?
11. Availability of service provider in your place?
12. What mobile service do you use?
13. What makes you to choose this service?
14. Why do not you change your service provider?
15. Do you have proper coverage facility?
16. Do you feel the current amount spent for mobile phone is high /medium /low?
17. Are you satisfied with the service provider and the amount you spend?
18. What are the mobile applications you have right now?
19. Are you using all the applications that have been provided?
20. Do you think, all these applications are necessary for your business? if not what do you recommend?

REVIEW OF LITERATURE

1. Introduction to Mobile Phone Industry

The telecommunications industry remains attractive (Vodafone, 2010). In spite of challenges in economic sector, decline in the growth of economy due to recession, rising unemployment, the communications industry continues to attract customers at large. This sector remains comparatively resilient, but not completely immune (Shelton, 2009). As telecommunications provide essential services which relates to fundamental human need to communicate for work and social purposes. In this environment, the company which can deliver innovative products with complete dedication to customer quality will be chosen by the customers (vincente et al 2009).

1.1 Overview of Indian Mobile Phone Industry

India has become one of the fastest growing mobile markets in the world (Telecom Regulation Authority of India, 2009). In August 1995, the mobile services were commercially launched in India. Initially the customer base was about 16 million, which increased to 22 million in 2004, 32 million in 2005 and 65 million in 2006. In January 2009, the figure touched an all time high of 362 million consumers (Telecom Regulation Authority of India, 2009). India is ranked second after China in mobile phone usage after reaching 506 million mark in 2009 (Telecom Regulation Authority of India, 2009) In emerging markets, like India, the potential growth for mobile penetration is around 38% on an average, in comparison to about 120% in Europe. This makes higher GDP growth prospects which provide significant customer growth opportunity. According to Kiruba Jeyaseeli Benjamin Levi (2006), India has got 153.37 million lines which include both telephone as well as mobile network. This is largest in the world and second largest among emerging economies after China.

According to 2008-2009 Annual Report, TRAI (financial year data), total wireless subscription base was 391.76 million. More than 10 million subscribers got added every month during this financial year. The total teledensity at the end of March 2009 was 36.98% in comparison to 26.22% at the end of March 2008. The total rural density at the end of March 2009 was 15.20% as compared to 9.20% in March 2008. Graphical representation of wireless customers till March 2009

(Adopted from: TRAI Annual Report for the financial year March 2009)

1.3 Overview of TamilNadu Telecom Industry



Analysing here is the TamilNadu Information Technology scenario. This industry has thrown great opportunities for Softwares export and related services in Tamil Nadu State. Some of the key features which made Tamil Nadu preferred destination for IT companies are world class connectivity, convenient power position, agro-industrial base, top class educational institutions, premier health care hospitals and extraordinary human resources. Reliance Infocom, Airtel Bharti are the some of the private telecom service providers operating in this state. The telecommunications pillar of this state is strengthened by OFC network i.e. Optical Fibre Cable in every corner of the state. Bharti is currently engaged in world's biggest submarine Optical Cable Fibre project which will connect Chennai and Singapore. To promote and encourage the telecom companies, government policies have extended far reaching incentives like subsidies and tax concessions, telecom services backbone, capital funds for developing new IT industry, technology parks in the state. These policy initiatives also included setting up training centres and computer training schools in the state to encourage human resource development. Budget session of 2002-2003 emphasised on New IT Policy for TamilNadu state, which introduced a 15 Point Programme of Chief Minister. This program outlined leap flogging to promote information and technology. It also laid emphasis on co-ordinated efforts of academics and technology to launch a movement for generating public understanding of Science. This will help promote a new social bonding between society and scientists.

The main objective was to establish TamilNadu as favoured destination for IT and Telecom industries. Also, to upgrade the quality life of its citizens using E-Governance methods. The IT applications concerning state Government are research and development initiatives, more elaborate use of IT in Tamil language. Government has in store, plans of special drives for making city innovative and vibrant, more customer focussed and adhering to international standards of life to build entire state a knowledge powerhouse. It plans to capture 20% of Indian market by the end of Tenth Plan Period. In India in the year 2005 and 2006, mobile subscriptions outpaced fixed line connections due to cheap and availability according to a study of Kumar and Thomas (2006). Every month, on an average 4.5 million is added as new mobile subscribers and in fact, this number exceeded China.

Rural Marketing Strategies in India

It has been showed that after analysing the socio-economic changes happening the slogan of 'go Rural' has been formed. In comparison with urban population, the rural population is nearly three times higher than the urban population. Hence the ultimate target for consumer products or services is the rural market. To marketers, the Indian rural market offers great opportunities as almost two thirds of Indian consumer resides in rural. However there are several features of rural market which every marketer to need to understand as the rural market is difficult to predict and moreover possess special characteristics. Consumer understanding, poor infrastructure, communication, distribution are the critical issues faced by the rural market. Thus, marketers need to understand these areas and thereby need to plan their distribution and pricing strategies. Furthermore, value for money is the expectation from rural consumers due to their meagre status of weekly income, hence in order to tap the immense potential of the market, improving distribution and increasing the household income are the viable strategies (Rajendhiran, n.d). In rural market it is unpredictable about the success of a brand and always been difficult to estimate the rural market. It has been showed that many brands which are successful in urban market are failed miserably, thus marketer considered rural market success to luck. Hence, it is necessary to understand the attitude and social dynamic variations.

Rural Tele-market

In the teledensity of urban and Rural India there is a marked difference as in a Rural India, the number of phones per hundred people is 9 even today and this was comparatively lower than the urban Region which is 70. The main reason for this low subscription in these regions is mainly due to the low connectivity due to low average revenue per user (ARPU), which acts as a main hindrance to the mobile companies. The government also took initiatives to target the rural market by creating universal service organization, where all the players in the market need to contribute the portions of their revenue. There

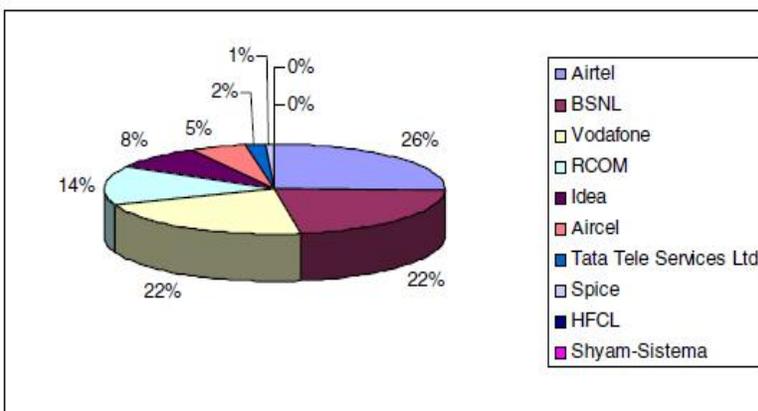


are lot of mixed factors for the low teledensity reasons such as low per capita income and poor infrastructure, thus buying equipments with high features is a more of a luxury to the rural people. In addition, the need for information about the external world also impedes due to low literacy rate. Moreover, low literacy also affects the villagers mainly due to the middle men and money lenders.

Rural Telecommunication - Current Status

According to the report by TRAI (Telecom), the market leaders today in rural India are the BSNL and MTNS which are fixed lines. In the rural market, only marginal share is hold by the private players. The figure shows the market capitalization of mobile line in rural areas. The figure shows that Airtel is the market leader as of December 2007 and illustrated that in the mobile subscriber market space by the public and private sector.

Figure 1: Rural Mobile market (Source: TRAI report, 2007)



It is difficult to provide service of telecommunication of acceptable quality by traditional means at affordable prices due to the varied characteristics of the rural areas such as low population density and spread out population (CDOT, 2007). However, the wireless technology could overcome these difficulties for both underdeveloped and rural areas (Pendland et al., 2004; Gunasekaran and Harmantzis, 2007). However, the private sectors have not shown interest in the rural market and they always tried to occupy with the urban market, although India being fastest mobile growing market. The main reason to hesitate to invest in the rural market is the infrastructure and moreover players need to customize their products as the products available in the urban market may not be suitable for the villagers and moreover extending the services and product to the urban people will not attract the customers. Rural telecom services in other areas of rural countries and their growth success are presented in table

Success Stories of Rural Telecom



Example	Salient Features	Reasons for success
Bangladesh – Grameen Phone (Grameen Foundation 2005, World Resource Institute, 2001)	<ul style="list-style-type: none"> - Captured 63% of the country's Mobile market - Average of 60 customers use each phone and average monthly bills amount upto \$144.02 in 2000. - Model has been extended to Uganda 	<ul style="list-style-type: none"> - Share access business model - A cadre of phone entrepreneurs - Effective use of the Microfinance network for promoting Grameen Phone. - Use of GSM Technology - Significant subsidy being given to the service
Philippines – Smart Communications Inc (Anderson & Billou, 2007, Anderson et.al, 2005).	<ul style="list-style-type: none"> - Mobile penetration at 30% by 2004 and expected to reach 70 % by 2008. 	<ul style="list-style-type: none"> - Use of Innovative over the air payment system to overcome the availability problems - Developed smaller denominations of recharge - Use of used handsets reduced barriers to ownership.
Rural Communications – Chile (Wellenius, 2002)	<ul style="list-style-type: none"> - From 1995-2002 reduced the population living without access to basic voice communication from 15 to 1 percent 	<ul style="list-style-type: none"> - Reliance in market forces and minimum regulations - Simple and relatively expeditious processing - Effective Government leadership
African Experience in Mobile Telephony (Vodafone 2006, ITU 2006)	<ul style="list-style-type: none"> - 15 million mobile subscribers added to subscriber base in 2004, equivalent to total number of telephone subscribers in 1996 - Mobile penetration three times the land line at 9.1 per 100 inhabitants - 75 % of all African telephone subscribers are Mobile 	<ul style="list-style-type: none"> - Use of Mobile technology to leap-frog the older technologies - Ability of Mobile operators to provide mobile coverage rapidly - High degree of liberalization and competition in the mobile sector - Reduction in Tariff combined with "ultra-low-cost" Handsets and availability of prepaid service

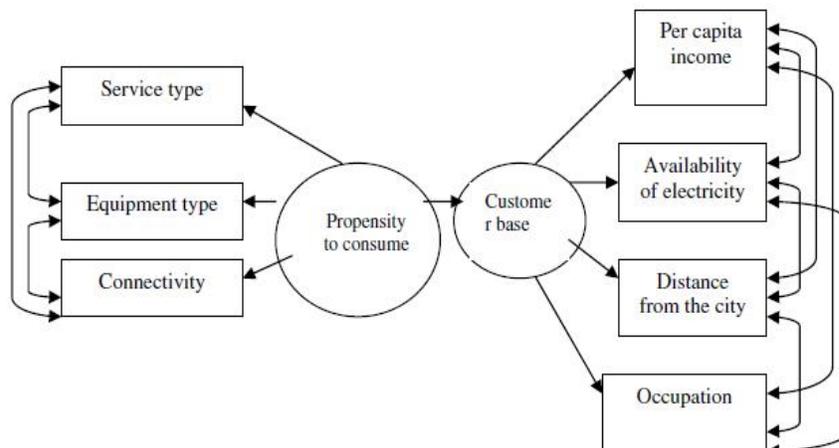
Source: Adapted from Mukhopadhyay and Aithal (n.d)
The table shows the success countries of various mobile players.

2. Introduction to Business & Marketing Strategies

Strategy refers to general directions and long term policy of an organisation. This policy is different from its policies guiding day-to-day operations. We can say that, Objective is what an organisation strive to achieve and Strategy is how an organisation is going to do it (Kiruba Jeyaseeli Benjamin Levi, 2006). So a business strategy talks about offers and resources required by each of the business units to reach the target guided by corporate strategy. The method guiding the business strategy is called as portfolio method. Portfolio method is widely and extensively used for proposed and existing businesses. This Portfolio method make use of two criteria to penetrate in the market (Kiruba Jeyaseeli Benjamin Levi, 2006). The first factor assesses the attractiveness of the target market and the second factor assesses the comparative strength of business in comparison to the competitor. There are two very popular method – one uses the Boston Consulting Group Portfolio to find out the market share and the second method uses McKinsey & General Electric Portfolio to assess competitive strength. When diversifying into new sectors, always remain true to the core values of the parent brand. Consumers will expect the same brand values in the new product. One need to find aim to a tangible point of difference that plays to one's strengths. The market leader may set the standard but attempting to catch up or copy their strategy will only result in failures. Brands need to be brave and plough their own paths. Company should always keep the consumer's needs front of mind, in technology companies especially. It is easy to lose sight of functions that will sell the product, rather than exciting new discoveries. Developing relationships with customers all through the value chain (Morag Cuddeford Jones ,2004).

Business Strategy proposed Model – Rural Market

It has been show that prior to investing in the rural market, mobile players should assess the model outcome.



Source: Adapted from Mukhopadhyay and Aithal (n.d)

The above models shows that in the rural India, connectivity is a vital component to drive the consume telephony service propensity. According to the policy initiated by National telecom in 1999, have allowed the private player to enter the market by deploying wireless local loop and also to improve the connectivity the voice over internet protocol (VOIP) has been recommended and in addition to that to enhance the connectivity, the growth of worldwide interoperability of microwave access (WiMax) and Wireless broadband. In addition using various technologies like 2G and other GSM technologies the companies can improve the link and the connectivity as in the cities. In fact the small business entrepreneurs can access the distant village to know the latest price of commodities like gram wheat etc using a 3G mobile phones.

In a rural setting, the mobile device is an essential parameter that can help to enhance the demand. The features that mobile players need to target are the vernacular keys on the set to increase the ease use. In addition mobile phone also need to have a public announcement system and should have double up as mechanism to act as a personal identification card. Further, the mobile should have important features such as announcement system such as weather, price and reports related information. Hence, the market player should provide basket of value added services to the customers and also provide extensive research before targeting the particular market as each requirement will be unique to a region such as various factors like religion, culture and other socio economic parameters will affect the village preferences.

2.1 General Overview of Telecom Marketing Strategies

Mitchell (1992) says that, although revenue collection from traditional services like voice and messaging in growing markets are moving slowly due to competitive and regulatory pressures, but there still remains scope of significant growth opportunity in mobile data. Due to increasing demand for integrated solutions, international services and converged offerings, emerging markets like enterprise and broadband markets provide growth opportunities.

While making strategies for the sale of mobile sets in the market, company should always analyse the mindset of the consumers first. The target clients needs, desires, geographical location, demographic features to hold an advantageous position in the market. The customers are generally confused when it comes to buying mobile phones (Peter W. Tumbull, Sheena Leek and Grace Ying, 2000). There are wide range of mobile phones available in market these days. Also, the number of service providers have increased, who are trying to attract customers by offering lucrative and profitable schemes.

Reduction in call charges and maintaining good quality customer care service are the key points to retain customers. (Peter W. Tumbull, Sheena Leek and Grace Ying, 2000). Products so offered by the companies should be clearly projected and displayed in the market as any confusion regarding a particular mobile handset, its features, services provided etc, can led to loss of a valuable customer.



Mobile industry needs a large amount of investment, which is one of this industry's peculiar feature. The telecom players in the market keep upgrading their cellular system in order to survive harsh competition. This in turn ensures smooth functioning of the network and to provide competent services to the customers (Peter W. Tumbull, Sheena Leek and Grace Ying, 2000). Because of high running costs in this business, operators are required to use intensive market penetration strategies. (Peter W. Tumbull, Sheena Leek and Grace Ying, 2000). The cost of handsets got subsidised to a great extent to attract a common man. To fully make use of extended networks subsidising mobile handsets is one of the most lucrative strategies. This has increased the market share by many folds, as cheap handsets can be bought by almost everyone.

The mobile phone companies invest extensively on the product research to meet the requirements of ever demanding customer. This is also necessary to stay ahead of the competitors in the industry. Now talking about the funds requirement. Funds are heavily diverted towards technological improvement. The technology in mobile market changes almost after every month. The companies are expected to keep updating and upgrading their product as per the changing consumer's demands (Cox and Donald, 1967). Advertising has got a very major role to play in sales of mobile services. Heavy expenditure is also allocated towards advertising and promotional campaigns. Mobile is considered to be a "necessary evil" and to make it available to remotest of the area, extensive advertising is required to capture the market. This industry does not have tangible feature, hence comes the importance of the brand here. Large and recognised brand names have greater hold on the market (Edgett and Parkinson, 1993). Companies are required to keep changing their marketing tactics to improve on the company's competitiveness and to get greater market share (Peter W. Tumbull, Sheena Leek and Grace Ying, 2000). Customer Services are one of these. A quality customer service in this area will go a greater distance to make and retain loyal customers. This volatile industry faces a lot of threats from changing technology and growing demands of consumers, which leads to constantly changing call line charges and other service charges. Especially because customers are highly sensitive towards price changes. But sometimes complex billing computation and varying call tariffs cause uncertainty in the market (Levitt T, 1981).

2.2 Mobile Usage by Small Scale Entrepreneurs

According to Mead and Leidhold (1998) and Santos (1979), microenterprises are the sector where fewer or five employees work and hold up the households of nations in developing and play an important role in the economies. Microenterprise or small scale business person vary according to the area, particularly urban and rural sector. In rural sector, where both non-agricultural people as well as agricultural business could be found while in the case of urban areas, there are several business men available including retail, transport providers, stalls, plumbers and tailors who belong to service sector. Between micro entrepreneurs there is a considerable variation in the degree of permanence, productivity and formality. According to Duncombe & Heeks (2001), there are other businessmen so called 'entrepreneurial' developing companies with productive business and skilled owned. However, the majority of the entrepreneurial are in the stage of developing and in fact struggling in their business without going to the next stage of larger enterprise and all these mixed businessmen are in the market (Mead & Leidholm, 1989). In general in this kind of business, barriers are less and thus, they engage in more than one sector and use business to augment. However, the utmost importance to the entrepreneurs is to the livelihoods of the households involved as most of microenterprises are not sources for phenomenal growth, any gains in productivity, profitability and even basic stability. Although many of the businessmen are aware about the ICT, there is still a large gap between the use of ICT, particularly in this case mobile phones in their business is indistinct. The importance of basic telephone connectivity has been concealed, when it comes to ICT use by microentrepreneurs as recent popular and development practitioner fervour for Internet-related services (Besemer, Addison, & Ferguson, 2003; Kenny, 2002). The relative importance of the



phone relative to other ICTs was commented by Duncombe and Heeks (1999) and explained the telephone is

“...the information-related technology that has done the most to reduce costs, increase income and reduce uncertainty and risk. Phones support the current reality of informal information systems, they can help extend social and business networks, and they clearly substitute for journeys and, in some cases, for brokers, traders and other business intermediaries. They therefore work “with the grain” of informality yet at the same time help to eat into the problems of insularity that can run alongside. Phones also meet the priority information needs of this group of communication rather than processing of information”. (p. 18)

In Botswana in 1999, the assessment of firms was conducted by Duncombe and Heeks among rural population and they did show any difference between mobile and landline telephony. Nevertheless, even the smallest of enterprises, the mobile phones accessibility and affordability in comparison to the landlines found to be new and predominantly feasible telecommunications choice. Without a mention of Bangladesh's Grameen Village Phone program no discussion of mobile phones and micro-businesses is complete, which is renowned model a financial and technological model development to authorize entrepreneurs of women in a village to act as “phone ladies” (Bayes, von Braun, & Akhter, 1999; Richardson, Ramirez, & Haq, 2000). In Uganda, same model has been replicated in association with MTN (USAID, 2004) and Reck & Wood (2003) showed similar kind of endeavours, both formal/franchised and Dymond & Oestmann, (2003) and Sey (2005) have other informal and independent work have initiated other countries of different population who do not afford mobile on their own.

In general, there are only few studies available on use of mobile phones by the small scale businessmen. In Egypt and South Africa, the importances of mobile to micro-business have been highlighted by Samuel, Shah, and Hadingham (2005). The study results shows that almost 60 percent of the business men reported that their profitability had been increased due to increase in mobile phones usage. The studies conducted by Donner (2003) have reported that mix of intrinsic and instrumental elements that structures businessmen of small scale feelings towards their mobile phones. The study results showed that there is a mixed results, but on overall the productivity was increased due to the usage of mobile phones and they considered mobile phones as indispensable one. Donner (2005) showed that 1/3 of calls were business-related while roughly 2/3 of calls on microentrepreneurs call logs had to do with personal issues – calls to friends and family. In earlier studies of public phone users in rural areas in Ghana (Bertolini, 2001) Costa Rica (Saunders et al., 1994), India (Blattman, Jenson, & Roman, 2003), Bangladesh (Bayes et al., 1999; Richardson et al., 2000), and elsewhere in Sub-Saharan Africa (Gamos, 2003) have shown that proportions, mixing business and personal motivations.

2.2.1 Strategies for entering the Rural and Urban market

Kiruba Jeyaseeli Benjamin Levi (2006) says in her thesis for any company to enter in a new market is a difficult task. Every market has got its distinct features like political system, economy, legal system, government rules and regulations, culture and society. The Indian Society (including both urban and rural communities) shows clear demarcation between rich and poor people, urban and rural people, the educated and uneducated people. About 29% of Indian population live below poverty line. Also there is large number of young population who know English and is versed with computers. So India offers a blend of people who would be using mobile phones (Kiruba Jeyaseeli Benjamin Levi 2006). Hence it is evident that any telecom company who targets large population of India, will have to consider the needs of all these different groups.

Fast changes in advanced technology, government deregulations and hectic consumer lifestyle have contributed to fierce competition in telecom industry. There are a number of mobile network operators in the market, fighting it out for their target consumers. This intense competition has resulted in drastic



fall of mobile prices. Due to great price reductions, mobile phones have become the almost an inseparable part of our lives. They are not a luxury anymore, but are our necessity (Peter W. Tumbull, Sheena Leek and Grace Ying, 2000)

TRAI, 2010 states that the rural penetration strategy employed by TATA is strongly backed by their mission statement. They aim at 500 million customers by 2010 which will also include rural population. This can be achieved by providing cheap, reliable and affordable services. At present the number of rural subscribers are just 101 million. TATA recommends (TRAI, 2010) multi-dimensional approach for entering the rural sector. Not only the telecom area, but all the related departments should be modified. For example rural infrastructure like law and order, power supply, and surface transport should be in place, which will aid in fast grounding of telecom networks. On the other hand Reliance (TRAI, 2010) believes that policies across various departments in Government of India should bring in information and knowledge from multiple resource to rural areas to brighten up their daily lives. The areas which should be covered are literacy and education. Agriculture related products like fertilizers and pesticides, agricultural products, seeds and its quality and weather should be in good place. All the departments of Fisheries, forestry, rural industry and animal husbandry should work in harmony for efficient infrastructure. Fields of healthcare and banking should provide all the relevant facilities to its customers (reliance.com, 2010). In such a scenario telecom service provider can assume the role of crucial catalyst to bring about a revolution in rural areas. The company can work in harmony with the above mentioned organisations and institutions to progress ahead (TRAI, 2010) and will give rise to partnership approach. There could be a number of ways in which a company can enter a market in India in both the urban and rural sectors (Kiruba Jeyaseeli Benjamin Levi, 2006)

2.2.2 Needs and Requirements of Small Scale Businessmen

The most crucial advertising agency for any product is “word of mouth”. Consumers believe that word of mouth information is more trustworthy and reliable (Edgett and Parkinson, 1993, Murray, 1991). A small scale businessmen does not have time to watch television or nor is he very well read to comprehend complicated policies of different telecom companies. For him to find out the best suited company is through word of mouth. He will take advice from his relatives and friends to decide upon the telecom company he would like to go ahead with. Consumers tend to make different decisions if ambiguity persists in the market (Kahn and Sarin, 1988).

A small scale businessmen has limited funds to engage in any kind of luxuries. They indulge in buying after lot of thought process and analysis. He wants an absolutely reliable and trustworthy Brand to bank upon for its needs. So, the first thing he looks for in a company is its brand image, which is calculated by the number of friends and relatives who have taken the same product (Kahn and Sarin 1988). The second thing which comes to his mind is the cost factor, price of the product should be easily affordable, providing all the good offers and schemes. They also look in for some kind of assurance from the company itself that its products are of world class value and they will be treated as valued customers.

3. Mobile market Strategies of various Companies in India

The Mintel report (1998), states that mobile phone markets include mobile phone hardware and service providers both. The services of these two providers are regulated by TRAI. All the telecom related companies who venture in the mobile market, are required to adhere to the regulations issued by Telecom regulatory Authority of India TRA, all the marketing and penetration strategies must lie within the periphery of these regulations. In the next few paragraphs we will compare the mobile market strategies of various companies existing in India.

The breakup of wireless subscriber base in India as of December 2009 is given below (Press release TRAI, 2009).

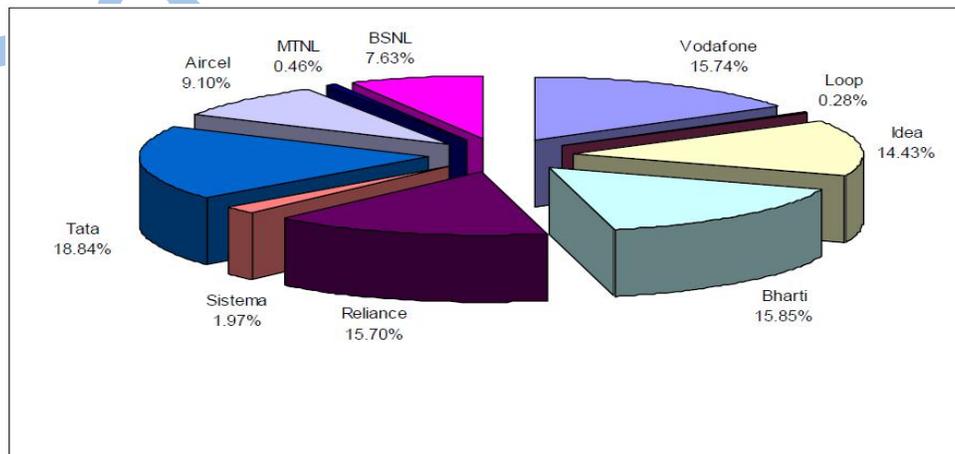


Operator	Subscriber base
Bharti Airtel	118,864,031
Reliance Communications	93,795,613
Vodafone Essar	91,401,959
BSNL	62,861,214
Idea Cellular	57,611,872
Tata Teleservices	57,329,449
Aircel	31,023,997
MTNL	4,875,913
MTS India	3,042,741
Loop Mobile India	2,649,730
Uninor	1,208,130
HFCL Infotel	341,862
Stel	141,411
All India	525,147,922

Pictorial representation of mobile area distribution of various companies in India

Adopted
TRAI
release

We now
adopted
various



from :
Press
2009

discuss
strategies
by
telecom



companies to enter Indian Urban and Rural markets .

Case study – Air Tel

Bharti Enterprises is one of India's leading business groups with interests in telecom, agri business, financial services, retail and manufacturing. Bharti Airtel, a group company, is one of Asia's leading providers of telecommunications services with operations in India and Sri Lanka, spanning mobile services, telemedia services and enterprise services. Bharti Airtel has always been at the forefront of the telecom revolution, transforming the sector with its world-class services built on leading edge technologies. In the area of financial services, Bharti has been partnering with AXA of France to offer life insurance, general insurance and asset management services. Bharti Retail, a wholly owned subsidiary of Bharti Enterprises operates multiple-format consumer friendly stores, while Bharti Walmart is a B2B joint venture with Walmart, for wholesale cash and carry and back-end supply chain management operations. Other businesses in the group are Beitel for communication and media devices, and FieldFresh Foods Private Limited, a joint venture with Del Monte Pacific Limited to offer fresh fruits and vegetables, and processed food in India as well as international markets. Bharti has many firsts to its credit, ranging from being the first cellular service in Delhi, first Indian company to provide comprehensive telecom services outside India (Seychelles), fastest growing VSAT company in India, and first multinational Internet Service Provider. Bharti also created history with the launch of India's first private sector fixed line service in the state of Madhya Pradesh, which is today India's largest private basic telephone service. Bharti has many firsts to its credit, ranging from being the first cellular service in Delhi, first Indian company to provide comprehensive telecom services outside India (Seychelles), fastest growing VSAT company in India, and first multinational Internet Service Provider. Bharti also created history with the launch of India's first private sector fixed line service in the state of Madhya Pradesh, which is today India's largest private basic telephone service.

4.1 Telecom Policy

- ▶ Announces new high growth 'Mobility business group' structure to attain pan India leadership.
- ▶ Establishes the first major region in the west comprising of Mumbai, Maharashtra, Gujarat & Madhya Pradesh under an Executive Director
- ▶ Clusters the balance individual circles into five geographical 'Hubs of Business Excellence' as operational pockets
- ▶ Earmarks initial total investment at Rs 1500 crores

Bharti Enterprises, India's leading telecom conglomerate, today announced its strategic roadmap for providing mobile services across India. This is consequent to its successful bids for the 4th cellular licence in Mumbai, Maharashtra, Gujarat, Haryana, UP (West), Madhya Pradesh, Kerala & Tamil Nadu. These alongwith the acquisition of Kolkata and existing operations in Delhi, Karnataka, Andhra Pradesh, Himachal Pradesh, Chennai and the eventual settlement of Punjab will take Bharti's mobile spread to cover 87% of all mobile phone users in India cutting across 1.8 million sq. km in 15 states covering a total population base of around 700 million people. This takes forward Bharti's business strategy & corporate philosophy unveiled in its high growth restructuring announced last year.

According to Chairman and Group Managing Director, Bharti Enterprises, Mr Sunil Bharti Mittal, "The



strategic roadmap and restructuring in mobility is designed to make Bharti a pan-India mobile leader. At the business level, a larger footprint makes for a larger geographical market that each business leader can address, enabling him to plan for greater synergies and economies of scale. The restructuring into region & hubs will ensure that our resources are more efficiently allocated across geographically contiguous areas or proximate markets. I am also particularly pleased to share that for all members of the Bharti team, this will further provide several strong growth avenues across the group.”

Bharti said that its mobile operations would be restructured into one major region in the west and five hubs for greater regional and operational synergies. The creation of a major region in the west as against hubs across India underlines Bharti’s strategic thrust to the western region. The region & hubs have been created for synergising management & operational needs. This restructuring will hence ensure that key decision making is decentralised to the head of the region & hub to ensure greater customer focus. This will result in management of larger business areas with greater operational efficiencies and flexibility. Bharti also announced its plans for the rest of the circles which has been clustered into ‘Hubs of Business Excellence’.

The new structure underlines Bharti’s corporate philosophy of developing leaders. Bharti would be making an initial investment of Rs 1500 crores in developing & building a world-class service infrastructure. The funding for these projects would be largely from the equity already raised and the debt, which is being arranged. This investment clearly signals Bharti’s commitment to create true customer value by building world-class networks to offer the finest products & services to its customers across the length & breadth of India. Bharti plans to set-up the finest world-class mobile networks in India to offer the Indian consumer with the best next generation mobile technology products like IN services, GPRS etc.

4.2 Telecom policy in TN (include rural & urban both)

Mode of entry of any company in a new territory is guided by the following points (Mitchell, 1993)

- Objective of the company regarding the number of customers desired in a particular market , desired geographical coverage, time span of company involvement desired.
- Size of the company in terms of assets and sales.
- Nature of company’s product and its product line . Nature of the product tells about its usage, for consumer or industrial use. Pricing of the product – high price or low price and the product’s technological contents.
- Rules and Regulations of government
- Trade barriers involved
- Competitors in the market

The Chennai ‘Hub of Business Excellence’ would comprise the Chennai metro area and the newly acquired licences for Tamil Nadu and Kerala. P H Rao, who is currently the head of SkyCell in Chennai will take over as CEO for the Chennai hub. Vinod Sud has been appointed COO of the Kerala circle.

4.3 Advantages over Others

Airtel has been in the market for a long time now. The brand Airtel connects itself emotionally with the customers and engage in long term relationship. Brand like Vodafone has arrived recently in comparison to Airtel. The tariff rates of Airtel are easy to understand and less complex. People of rural areas can follow these rates more easily than of the other companies. Celebrity endorsement is one big



advantage of Airtel in its promotional activities. It has roped in stars like Saif Ali Khan and Kareena Kapoor of India to promote its services. This has struck an emotional chord with the people of India, who are crazy about their movie stars. At regular intervals of time, the company keeps offering promotional deals, offers and schemes to attract new customers and retain loyal customers. The company can boast of one of the fastest broadband networks to keep the young generation happy with its services.

5. Challenges from Competitive Forces

Quite a number of challenges have evolved after 2006. Like, the macroeconomic environment has become challenging (Vodafone, 2010). Competitive stress and pressures are growing stronger, resulting in price declines of mobile handsets to up to 15% per annum. Consumers have got a whole lot of options to choose from converged communications offered by established mobile and fixed line operators. Also the new entrants which include handset manufacturers, software providers and internet based companies. Moreover, mobile virtual network operators, who lease network capacity from mobile manufacturers are increasing with every passing day. In addition to this, the regulators are constantly trying to lower the mobile termination rates and roaming prices. These two areas are very crucial for any telecom based company as the two together form 17% of the company revenue.

Common man's knowledge about the product and services provided is very low. It seems that the company is busy making its brand image with the customers and has failed to tell customers about the prime product. They have not differentiated themselves distinctly with the other competitors on the basis of their products and services both. This leads to confusion among the consumers and they are not able to make firm purchasing decisions in favour of AirTel Bharathi. Women consumers are more confused than men because of the technicality involved in this area.

7. Conclusion

As per the literature reviewed above, it is clear that successful placement of the product and services can lead to popularity of the company. There are a number of players in the telecom market, who are competing with each other. The one company who will offer the best deal to the urban as well as rural population of India will emerge as winner. The researcher has broadened the level of the literature in particular.

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Sample Work