# Small and medium enterprises' internationalisation and business strategy: some evidence from firms located in an emerging market

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**Abstract**

**Purpose** – *The purpose of this paper is to investigate the international business strategy, key driving factors and the major barriers that may hinder the internationalisation progress of Malaysian small and medium-sized enterprises (SMEs).*

**Design/methodology/approach** – *Based on the aims of the study, the paper encompasses both quantitative and qualitative data. For quantitative data, structured questionnaires were used, and a total of 216 SMEs that engaged in international business participated using purposeful sampling, covering all the states in Peninsular Malaysia. For the collection of qualitative data, the study involved in-depth interviews with 25 owners/managers of SMEs.*

**Findings** – *The findings indicate that the motives of SMEs for international expansion are varied, and that SMEs still face many institutional challenges, which have prevented them from making a greater contribution.*

**Research limitations/implications** – *Due to lack of resources, firms from West Malaysia were included. West Malaysian firms may well possess characteristics concerning the challenges and issues to internationalisation that are unique to their region.*

**Originality/value** – *The paper addresses a knowledge gap in respect of the internationalisation process of SMEs in the context of Southeast Asia. The findings of this paper will have relevance for policymaking and supportive measures at the government level to create an environment that will stimulate the competitiveness of SMEs in their attempts for internationalisation.*

**Keywords** *Malaysia, Emerging economies, Business strategy, Internationalisation, Small and medium-sized growth*

**Paper type** *Research paper*

## Introduction

Recognising the increasing role played by small and medium-sized enterprises (SMEs) in the innovation process, enhancing investment, income generation, sourcing to large firms, stimulating competition, economic development and job creation, the past two decades have seen a growing interest in the study of international operations of SMEs (Deakins *et al.*, 2007; Ruzzier *et al.*, 2006; Lu and Beamish, 2006). With increasing competition from local and foreign competitors over the past decade and in the face of globalisation, more and more SMEs are being forced into geographical expansion of economic activities across a country's national boundaries for business growth to sustain and survive (Svante, 2004; Gjellerup, 2000). The ever-changing business environment due to globalisation and market liberalisation has pressured the SMEs to respond to markets at an increasingly faster pace and adapt appropriate business strategies for business expansion (Pleitner, 1997). In addition, small firms could be more involved in international business activities because of the global market conditions, pursuing growth opportunities, new developments in

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transportation and communication technologies, and the increasing number of people with international knowledge and experience (Svante, 2004).

## Justification and parameters of the study

Despite the emergence and importance of the involvement of SMEs in the international arena, very little is understood about the pattern, process and development of the internationalisation of SMEs, or the reasons to do so, particularly for SMEs from newly industrialised countries. A plethora of theoretical and empirical studies on internationalisation has mainly focused and concentrated on long-established larger firms and small business enterprises in the advanced developed business society (Zeng *et al.*, 2008; Ruzzier *et al.*, 2006; Bell *et al.*, 2004; Svante, 2004; Gankema *et al.*, 2000). Although these Western theories on internationalisation have been successfully applied elsewhere, they have not yet been proven to be the most appropriate for Malaysia. A further investigation within the Malaysian context is needed, as the country is perceived to not only have a different culture but also different business practices (Othman *et al.*, 2006). However, researchers recognise that the Western-based management theories and practices adopted within the Asian context differ because of the different business environments, education and legal systems, beliefs and values, as well as the economic, political and cultural conditions (Griffin and Pustay, 2005). According to Hofstede (1996), theories are influenced by their cultural contexts, and the universality of many theories is therefore doubtful. Indeed, it appears that the process of internationalisation of SMEs, known for their idiosyncratic and multiple natures, cannot be correctly explained by only one theoretical perspective. This observation provides scope for an important gap within the existing literature to be addressed concerning the need for more research to be undertaken in a number of geographic areas that have been neglected to date – developing countries – and, particularly, in Malaysia. This paper seeks to redress this issue and takes a step towards empirically investigating the international expansion behaviour of Malaysian SMEs, including the entry and development modes strategy, selection of target market, problems, challenges and key drivers influencing the process. The aim is to investigate the factors that underlie the internationalisation development, and key driving factors that influence the international expansion process. According to Yeung (2004), the internationalisation of Malaysian SMEs is a new research phenomenon. Evidence from developing countries is still rather limited and remains unexplored (Ahmad, 2010). To gain an insight, understanding this dynamic scenario is crucial and will provide a better analysis in explaining the internationalisation process of emerging market SMEs. In addition, research within the developing country context, and Malaysia in particular, can help to establish and explain if the existing models developed in the industrialised world are adequate to explain the development process of these SMEs. In recognising this gap, two research questions (*RQ*s) are formulated, which can be summarised as follows:

*RQ1*. What factors that underlie the SMEs in emerging markets, particularly from Malaysia, internationalise, and what are the key determinants that motivate the internationalisation process?

*RQ2*. What are the perceived barriers faced by these SMEs in their internationalisation attempts?

The paper first reviews the literature on internationalisation with particular emphasis on several international expansion theories including stage models of the incremental process, born-global theory, networking approach and resource-based perspective. Then, the methodology of the present study is described, followed by a presentation of the findings. The internationalisation of Malaysian SMEs is analysed and compared with various theoretical perspectives. The paper ends with a conclusion and recommendations for future research.

## Literature review: models of SME internationalisation

In this section, the Uppsala internationalisation and stage models, the born-global theory, networking approach and resource-based view (RBV) theory of internationalisation are examined and evaluated. An examination of the various theories of the international firm will assist the analysis of various factors that influence the establishment and sustainability of international SME firms.

### *Internationalisation processes and stage models*

Concerning the pace, these models converge on the idea that internationalisation is a linear and sequential acquisition process composed of a whole of stages' "chain of establishment" (Johanson and Wiedersheim-Paul, 1975, 2009). The researchers distinguish two ways for the analysis of internationalisation in this approach:

1. the "Uppsala Internationalisation Model" ("U-M") (Johanson and Vahlne, 1977); and
2. the "Innovation-related Internationalisation Model" ("I-M") (Bilkey and Tesar, 1977; Reid, 1981; Czinkota, 1982).

However, many researchers (Pope, 2002; Gankema *et al.*, 2000) suggest the need to review the general range of these models (Anxinn and Metthyssens, 2002). The U-M posits internationalisation as a process for increasing experiential knowledge (Penrose, 1959) and development "over time". The model places the experience gained gradually as the key to this internationalisation. The lack of knowledge of foreign markets and operations creates an obstacle to internationalisation, and such knowledge can only be acquired by operating in, and experiencing, international markets. The knowledge that is lacking may be internationalisation knowledge, institutional knowledge or business knowledge (Eriksson *et al.*, 2000). The gradual acquisition of knowledge increases foreign commitment. The Uppsala school extended the idea of incremental international development to the entire process of a firm's internationalisation from exporting to foreign direct investment.

In the I-M model, Johanson and Wiedersheim-Paul (1975) proposed that the internationalisation process of firms usually takes a long time, is cautious and is characterised by four incremental phases of entering international markets, in which successive phases represent higher degrees of international involvement, commitment and gaining of more internationalisation knowledge and experience. Internationalisation knowledge is awareness of the firm's capability and resources for engaging in international operations. It functions as a repository and is accumulated over time (Yu, 1990). Lack of internationalisation knowledge refers to the general experience gained from operating abroad. Experiential knowledge, on the other hand, refers to knowledge that firms accumulate by actively participating in the international market (Penrose, 1959). To begin with, according to the model, firms only sporadically engage in export activities. After some time, the firms enter into an agreement with an agent to act as their representative in the market. In a subsequent step, the firms may establish a sales subsidiary, and, finally, start local manufacturing within the international boundaries. Although Johanson and Vahlne (1977, 1990) have elaborated on the concepts of commitment and knowledge more extensively, they could not explain the accelerated internationalisation of born-global firms. As a result, alternative theories, such as the born-global, network theory and RBV, are needed to complete the explanation of the internationalisation process.

### *The born-global firm*

The key argument postulated in this theory is that, instead of firms beginning their international activities following the traditional sequential stages pattern, as proposed in the internationalisation process and stage models, they start their international movement and commitment right from the earliest days of their establishment to pursue global strategies (Moen and Servais, 2002; Zahra and George, 2002). The firms in the Oviatt and McDougall

(1994) study used hybrid modes of market entry and did not follow the sequential pattern of internationalisation stage theory. They describe "a business organisation that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries". Similarly, Knight and Cavusgil (1996) conceptualise "born global" firms as being "small, technology-oriented companies that operate in international markets from the earliest days of their establishment". According to Knight and Cavusgil (1996) and Knight (2001), the facilitating factors that lead to the emergence of born-global firms include:

- greater efficiency;
- access to a borderless marketplace for goods and services;
- advances in communications technologies;
- inherent advantages of young firms;
- advances in production technologies;
- the growing role of global networks;
- the rising number of management teams with international knowledge and experience;
- ambition and vision of the founder; and
- the increasing salience of global niche markets.

From the outset, firms view the world as their marketplace and born-global's focus on receiving revenue mostly from the sale of their products abroad. By internationalising early, firms can counteract the potential limiting effects of domestic inertia (Oviatt and McDougall, 1994). The theory holds that such firms are formed by active entrepreneurs who have strong international knowledge and experience, and tend to emerge because of a significant breakthrough in some process or technology (Knight and Cavusgil, 2004; Knight, 1997). The theory is based on the importance of the internationalisation knowledge of the firm's founder to internationalise (Mathews and Zander, 2007). Such knowledge and experience are required, as firms face higher business risk and uncertain conditions by operating in the global marketplace. Empirical evidence provided by Svante (2004), O'Gorman and McTiernan (2000) and Kuemmerle (2002) supports this view. Because born-global firms use fast-track paths to internationalisation, they can bypass certain stages, so higher-order entry mode strategies are more likely to be used. The growing significance of born-global firms seems to be challenging most of the theory development previously established in the field. Hence, as it has been noted that numerous small firms have competed successfully, virtually from their inception, against large, established players in the global market (Rennie, 1993), the network theory and analysis are fundamental to the understanding of rapid internationalisation (Oviatt and McDougall, 1995; Coviello, 2006). Networks facilitate resource mobilisation and development and enable born-globals to access international markets. A strong international business network has been one of the distinguishing attributes of born-globals (Oviatt and McDougall, 1995). Therefore, to enrich the understanding of the firm's internationalisation process, this recent generation of born-globals should be taken into account. The significant differences between the theories enable this current study to identify the international expansion pattern of SMEs in Malaysia.

### *Networking theory of internationalisation*

The network perspective in business activities is found to be highly relevant to explaining the internationalisation of SMEs, particularly those that internationalise rapidly (Johanson and Vahlne, 2011; Andersson and Wictor, 2003; Coviello and Munro, 1995; Madsen and Servais, 1997; Oviatt and McDougall, 1994; Sharma and Blomstermo, 2003). The term "network" refers to a set of nodes and the business relationships that connect them (Chetty and Blankenburg, 2000; Fombrun, 1982). It is a mode of organising economic activities through inter-firm coordination, collaborative and cooperation to exchange or share information or resources. It is an integrated and coordinated structure of ongoing economic and non-economic relations embedded within, among and outside business firms (Havnes, 2003; Lloyd-Reason, 2002; Yeung, 1998). According to Johanson and Vahlne (2003), the business network is defined as a set of interconnected business relationships in which each exchange relation is between businesses/firms, which are conceptualised as collective actors. Loasby (1998) pointed out that firms have to rely on the capabilities of many people and many organisations, and the ability to merge these external capabilities with their own needs could allow these firms to achieve distinct advantages. These partners do not have to be formally linked by any governance structure and may include a variety of players, such as suppliers, distributors, competitors and governments. Due to the connectedness, the activities the firms perform and the resources they use in the network are interdependent (Anderson *et al.*, 1994). The business network concept suggests that the coordination of activities between two firms in a business relationship also takes place within the wider business network context. Thus, each firm can be expected to be engaged in a limited number of connected business relationships, each one coordinating the firm's activities with those of its counterpart (Fuller-Love and Thomas, 2004; Havnes, 2003; Håkansson and Ford, 2002). When two or more firms cooperate in a focal business relationship, they bring to the focal relationship their connected relationships. The evaluative criteria upon which they base their engagement in the focal relationship are influenced, at least indirectly, by their business network contexts (Lloyd-Reason, 2002; Anderson *et al.*, 1994).

In the business networks approach, the development of a firm's ownership advantage is largely tied to its interactions with other committed partners in the network. It evolves because of the coordination (Alter and Hage, 1993), adaptation (Hallén *et al.*, 1991) and level of trust and commitment (Morgan and Hunt, 1994) in the relationship. In the realm of business organisation, the motives for engaging in an inter-firm networking relationship can be classified into two sets. First, through co-operation, firms can increase their revenue and reduce competition by binding competitors as allies (Porter and Fuller, 1986). Moreover, firms can access complementary resources and/or capabilities or can closely coordinate their use of resources. Second, with business networks, firms can reduce costs as a result of economies of scale and scope that can be achieved in joint research, marketing or production (Contractor and Lorange, 1988). Networks can also increase flexibility and efficiency and allow access to critical network resources at minimal transaction cost and reduced risk (Gulati *et al.*, 2000), which, ultimately, leads to higher performance (Dyer and Nobeoka, 2000). In fact, being connected to others allows a firm to gain knowledge of foreign markets, access to required resources and capabilities and therefore, a firm's competitive advantage may rest on collaborative business networks. According to many scholars, many firms from developing countries, especially in Asia, seek sustainable networks to assist them to become internationally competitive firms (see Ahmad and Kitchen, 2008; Zeng and Williamson, 2003; Zhou and Xin, 2003). The network perspective in business activities is found to be highly relevant in explaining the internationalisation of SMEs, particularly those that internationalise rapidly (Andersson and Wictor, 2003; Madsen and Servais, 1997; Oviatt and McDougall, 1994; Sharma and Blomstermo, 2003; Schweizer *et al.*, 2010). Numerous studies have discussed the effects of networks on driving and facilitating the international development of SMEs, including access to external resources, transfer of information and knowledge, provision of moral support, establishment of legitimacy and creation of opportunities (Chen, 2003; Chetty and Holm, 2000; Fuller-Love and Thomas, 2004; Holmlund and Kock, 1997; Meyer and Skak, 2002). It is this particular perspective that this paper follows – to investigate the internationalisation of Malaysian SMEs – which may seem to rely not only on a firm's internationalisation knowledge and experience, and technological competence, as explained in/by most theories, but also on the business network relationships with various parties. The network approach offers a new perspective for the interpretation of the process of internationalisation, particularly, taking into account the limited resources, skills, knowledge and capabilities of small firms, membership of the network is a fundamental element to be able to develop. The networking includes the relationship of the firm with the Malaysian Government and its agencies, local business partners and foreign technology partners for its growth and development in the domestic and international markets. Therefore, it is relevant to utilise the networking models in this study.

### *RBV theory of international business*

Under the RBV approach, the resources of the firm are the primary determinants of competitive advantage (Andersén, 2011; Ojala, 2009; Ojala and Tyrväinen, 2008; Peng, 2001; Peng *et al.*, 2001). This approach rests on two fundamental assertions:

1. the resources possessed by competing firms may be different (i.e. resource heterogeneity); and
2. these differences may be long lasting (i.e. resource immobility).

The term resources refers to all assets, capabilities, organisational processes, attributes of the firm, information, knowledge, physical facilities, reputation, business network relationships and so forth that are controlled by a firm. They also enable the firm to conceive and implement strategies that improve its efficiency and effectiveness (Daft, 1983; Porter, 1980; Grant, 1991; Gulati *et al.*, 2000; Barney *et al.*, 2001). The term refers to unique internal firm-specific assets that may be tangible or otherwise (Grant, 1991), and could be thought of as either a strength or a weakness of a given firm (Wernerfelt, 2001). The central argument of this perspective is that if a firm possesses a resource that is not currently possessed by competitors, then it may gain short-term or temporary competitive advantage (resource heterogeneity). In addition, if a firm without a resource faces a cost disadvantage in obtaining that resource, then the firm that already possesses that resource can have sustained competitive advantage (resource immobility). Therefore, in terms of internationalisation, access to such exclusive resources can provide a solid base for international expansion.

The RBV claims that small international firms can leverage resources by developing distinctive capabilities that allow gaining competitive advantage (Barney *et al.*, 2001). However, not all resources possessed by a firm are sources of competitive advantage. Only those that meet certain criteria can be considered as sources of firm competitive advantage (Peteraf, 2001). First, the resource must be valuable, enabling the firm to exploit some environmental opportunity and neutralise lesser environmental threats. Resources are considered valuable when they enable a firm to conceive or implement strategies that improve the firm's efficiency or effectiveness (Barney *et al.*, 2001). Second, the resource must be unique and not possessed by other competitors or potential competitors. Third, the resource must be non-substitutable or non-equivalent. Finally, the resource must be difficult to imitate. For a firm to be in a position to exploit a valuable and rare resource, there must be a resource position barrier preventing imitation by other firms (Wernerfelt, 2001). According to Barney (1991), there are three main characteristics that make resources difficult to imitate: unique historical conditions, causal ambiguity and social complexity. The process of asset stock accumulation within the firm may also prevent imitation. Where these stocks possess the characteristics of time compression diseconomies (accumulation has taken place over a long period), asset mass efficiencies (a critical mass of stocks has been developed) and interconnectedness (stocks are interrelated), imitation is difficult. Therefore, in terms of internationalisation, access to such exclusive resources can provide a solid base for international expansion. The concepts introduced in the firm's RBV approach have been supported by a number of empirical studies, which suggest that resources are primary sources of competitive advantage that motivate a firm to internationalise (Powell, 1992). Whilst the RBV holds potential with regards to understanding rapid internationalisation, to date, there has been little explanation as to how small firms acquire resources and how these may change over time.

In sum, there are two major perspectives on the process of internationalisation of SMEs. The first perceives the internationalisation of SMEs as being a sequential process that leads from a domestic market to an international foreign market through a learning process, whereby knowledge of the new markets is acquired and resources are increasingly committed. The second perspective, derived from international entrepreneurship literature, contends that a firm can be born-global in which firms may be internationalised from inception. The majority of the previous studies on the internationalisation of SMEs only apply one theoretical model by stages, by the economy or by the networks. This paper attempts to integrate these four theoretical approaches, and offer a relatively complete comprehension of the internationalisation process of emerging market SMEs, which cannot be explained and described by only one theoretical perspective.

## Research methodology

The internationalisation of SMEs is dynamic, complex and complicated (Dana, 2004; Coviello and McAuley, 1999) because the process involves many parties – individual, group, government and institutions. Researching SME internationalisation in the Malaysian context requires involvement from SME practitioners, business consultants, financial institutions, supporting government agencies and the public. Therefore, to obtain a deeper understanding of the behaviour of SME internationalisation in Malaysia, this paper adopts a concurrent triangulation design (Creswell, 2003; Siu and Kirby, 1999), the most widely used mixed method in social and behavioural research, which combines both quantitative and qualitative methods. The mixed-method design also enables the use of data from the qualitative method to elaborate and clarify the results from the survey method and explore deeper the theoretical explanation of the complex phenomena (Teddie and Tashakkori, 2009).

### *Quantitative study: survey*

A quantitative methodology was chosen for this study with the view to improve the robustness of the outcome. To ensure the pertinence and relevance of the information derived from the data collection, three criteria were set for inclusion in the sample as follows:

1. firms must be SMEs (<150 employees for manufacturing sector and <50 employees for services sector), as typified by SME Corporation Malaysia classification (www.smecorp.gov.my/v4/node/14);
2. be engaged in international business activities; and
3. the sample was drawn from manufacturing, services, agriculture, construction and other businesses across a wide range of industries. The purpose in doing so was to improve the external validity of the results compared with some previous studies on the subject that tended to be industry-specific.

The cut-off of 150 employees for manufacturing and 50 employees for the services sector represents a definition of what constitutes a small-to-medium-scale enterprise in terms of the number of employees in the country. The questionnaire was mailed to the owners/upper-level managers of 350 SMEs with a cover letter emphasising the relevance of the study and its potential impact on public policymakers. The respondents were assumed to be knowledgeable and familiar with the operations related to the issues under investigation. Extensive efforts were made to increase the response rates, following Cavusgil and Elvey-Kirk's (1998) advice. Up to three emails were sent to each potential respondent inviting them to complete the questionnaire. Follow-up contacts by telephone were also made. A total of 223 respondents completed the questionnaire, 216 of which were valid cases. Considering only valid questionnaires, 75 per cent were completed by founders and 25 per cent by upper-level managers. Four constructs were used in the measuring instrument:

1. firm behaviour and characteristics;
2. managerial behaviour and characteristics;

3. motivational factors for internationalisation; and
4. environmental conditions.

These constructs have consistently been identified as relevant in previous studies concerning the internationalisation of SMEs (Lu and Beamish, 2006; Tsang, 2001; Yip *et al.*, 2000). The reliability coefficient (Cronbach's alpha) of the instrument was 0.873 for those items that are of central interest to this research. This figure is well above the recommended minimum of 0.60 (Malhotra, 1993).

### *Qualitative study: in-depth interviews*

In a qualitative approach, semi-structured in-depth interviews were conducted with 25 key personnel/owners/managers of SMEs; business consultants (5); government agencies and related parties, such as the Chamber of Commerce (7), in investigating the internationalisation process of these firms. The respondents are highly specialised in the development of SMEs in Malaysia. Dalkey and Helmer (1963) point out that the experts need to have specific criteria, such as highly knowledgeable on the subject matter, and their professions and positions need to reflect their expertise. Following this point of view, all participants are specialised in the area of international business, international entrepreneurship and international marketing. The interviews were held on-site in the respective organisations. The use of in-depth interviews enables a researcher to gain insights and understanding of complex, sensitive issues and uncovered phenomenon that go beyond the usual clichés about internationalisation of firms. Before the interview, a pre-tested and structured questionnaire (known as interview schedule/guide) developed by the authors was completed by the owners/managers of the study sample small firms to increase the reliability and validity of the data so obtained. The interview schedule contains questions on a range of issues regarding internationalisation of Malaysian SMEs, the factors that influenced their decision to internationalise and the international growth strategies adopted. Respondents were also encouraged to describe the challenges they encountered in the implementation of strategies for international firm growth. The 60-100-minute long interviews were digitally recorded, carefully listened to and transcribed verbatim using a word processor. A second listening was performed to ensure consistency between the recorded and transcribed data. Complete case reports were sent back to the interviewees to ensure validity and authenticity of the collected data. In addition, some telephone and email interviews were used to collect further information from the interviewees. To give a clearer description of a research paper, multiple sources of evidence, including both primary and secondary data – internal unpublished documentation, internal brochures, archival records, Internet websites, company annual reports, company newsletters, newspaper clippings, magazines and other sources (published and unpublished materials) (Punch, 1998; Yin, 1994) – were also collected to construct the case and to increase validity.

### *The choice of Malaysia as the focal country of the study*

The growing importance of Malaysia in the global economic arena and its economic and cultural differences to other emerging markets in Southeast Asia justify the choice of Malaysia as the focal country for the study. As with many emerging market firms in Southeast Asia, Malaysian firms have been late to internationalise (Ahmad, 2012, 2006). However, since the mid-1990s, regardless of their size and industry, firms from Malaysia have increasingly engaged in international activities (Ahmad and Kitchen, 2008). To the author's knowledge, very few studies in the international literature have addressed the internationalisation of entrepreneurial firms from Malaysia.

## Research results

### *Demographic profile of the survey*

The profiles of the participating SMEs are shown in Table I. The demographic data of firm size show that 170 firms employed < 50 employees and 46 firms had > 50 employees. In terms of the number of years in operation, most of the firms (84 per cent) had been in their business for > six years. Almost 96.7 per cent of firms faced some degree of competition in the sector. Of the respondents, 91.2 per cent were wholly owned by local shareholders, while 8.8 per cent shared ownership with foreigners. The firm's industry profiles were identified as:

- manufacturing (121);
- services (58);
- agriculture (16);
- construction (15); and
- other industry (6).

### *Pattern and pace for internationalisation process*

Table II highlights the patterns and pace of the Malaysian SMEs. In line with the internationalisation process theory, 85 per cent of small firms exhibited a gradual pattern of internationalisation. After creation, 65 per cent of SMEs focused on the domestic market for an extended period (6-10 years) before beginning their first international expansion. In some Malaysian SMEs, their rapid and global orientation, as well as their exponential growth, indicated rapid born-global. Pulled by an international network, these firms had established a significant international presence in a very short time – within 1-5 years of establishment.

### *Entry mode strategy and target market for international expansion*

As illustrated in Table III, the most common market entry strategy for 50.9 per cent of Malaysian SMEs was through direct exporting, and, second, through strategic alliances/joint ventures across all industry sectors. The use of strategic alliances/JV was most prominent for

**Table I** Profile of the sample SME firms

| *Position of respondent* | *Number of firms* (n = *216)* | *Respondent's tenure in the firm* | *Number of firms* (n = *216)* |
|---|---|---|---|
| *Entrepreneurs/Business owners* | 129 | < 5 years | 19 |
| Managing director/CEO | 28 | 5-9 years | 34 |
| General Manager/Manager | 50 | 10-14 years | 74 |
| Partners/Director | 9 | >15 years | 89 |
| *Firm size by employment* | | *Age of firms* | |
| <5 employees | 23 | < 5 years | 34 |
| 5-50 employees | 147 | 6-10 years | 97 |
| 51-150 employees | 46 | >10 years | 85 |
| *Nature of local market competition* | | *Export/sales ration* | |
| No competition | – | < 5 per cent | 54 |
| Slight competition | 7 | 6-10 per cent | 84 |
| Moderate competition | 49 | 11-15 per cent | 67 |
| Strong competition | 82 | 16-20 per cent | 8 |
| Severe competition | 78 | > 20 per cent | 3 |
| *Industry profile* | | *Ownership status* | |
| Manufacturing | 121 | Local ownership | 197 |
| Services | 58 | Local and foreign ownership | 19 |
| Agriculture | 16 | | |
| Construction | 15 | | |
| Other | 6 | | |

**Source:** Returned questionnaires

**Table II** Pattern and pace of internationalisation of Malaysia SME

| Industry | *Pattern of internationalisation* Traditional (slow and gradual) | Rapid | Born-global | *Pace of internationalisation (years)* 1-5 | 6-10 | > 11 |
|---|---|---|---|---|---|---|
| Manufacturing ($n$ = 121) | 107 | 14 | – | 5 | 97 | 19 |
| Services ($n$ = 58) | 49 | 6 | 3 | 15 | 24 | 19 |
| Agriculture ($n$ = 16) | 16 | – | – | 5 | 10 | 1 |
| Construction ($n$ = 15) | 10 | 5 | - | 6 | 6 | 3 |
| Other ($n$ = 6) | 2 | 1 | 3 | 1 | 4 | 1 |
| Total | 184 | 26 | 6 | 32 | 141 | 43 |

**Source:** Returned questionnaires

firms operating in the construction sector and in the services sector. A number of benefits were associated with the use of strategic alliance/JV. These related to greater access to market and customers, rare resource sharing, knowledge transfer and business information in new foreign markets. From a market efficiency standpoint, business networks allow higher flexibility of business activities at low transaction costs because of lower perceived uncertainties and opportunistic behaviour (Lovett *et al.*, 1999; Tong and Yong, 1998).

There appear to be two patterns in the way the Malaysian SMEs expanded internationally (see Table III); some ostensibly made a gradual progression to geographically and physically close countries before venturing further, whereas others, especially in the services sector, made the quantum leap to distant locations right from the start. The nearby geographical regions includes countries in Southeast Asia, South Asia and East Asia, Australia and New Zealand, while the faraway regions include countries, such as the USA, the UK, Europe, the Middle East and Africa.

From the study, it is found that the markets first selected by Malaysian SMEs are scattered. The vast majority of respondents entered into multiple markets, such as in the USA, Europe, Japan and China indiscriminately, because these markets are the biggest markets in the world. This phenomenon also happens in terms of industry. The first selected market differs according to the industry. This means that Malaysian SMEs choose their target market according to their own criteria, such as market size, and possibility of technology acquisition. The international environment selection of Malaysian SMEs is based on several primary criteria derived from the stage and network theories. The respondents were asked to rank these criteria using a 5-point Likert scale (where, 1 = the least important and 5 = the most important). The results of the findings are presented in Table IV. To some extent, the interviews with the respondents revealed that the choice of the target market was by business opportunity rather than familiarity.

**Table III** Entry-mode strategy and selection of target market for Malaysian SMEs

| Industry | *Choice of entry-mode strategy* Direct Exporting | Marketing/Sales subsidiary | Strategic alliances/Joint venture | FDI | *Foreign target market* Nearby geographical regions | Faraway geographical regions |
|---|---|---|---|---|---|---|
| Manufacturing ($n$ = 121) | 87 | 15 | 19 | – | × | × |
| Services ($n$ = 58) | 11 | – | 45 | 2 | × | × |
| Agriculture ($n$ = 16) | 8 | 3 | 5 | – | × | |
| Construction ($n$ = 15) | - | 4 | 11 | | × | |
| Other ($n$ = 6) | 4 | 1 | 1 | | × | × |
| Total | 110 | 23 | 81 | 2 | | |

**Source:** Returned questionnaires

**Table IV** The main determinants for the selection of environment for Malaysian SMEs

| *Variables* | *Mean* | *SD* | *Remarks* |
|---|---|---|---|
| Potential growth of international markets | 4.82 | 1.56 | Very important |
| International business opportunities | 4.75 | 1.56 | Very important |
| Formal relationships with industry's partners | 4.34 | 1.45 | Important |
| Geographic proximity | 4.00 | 1.42 | Important |
| Accumulation knowledge and varied experience of owners/entrepreneurs | 3.89 | 1.35 | Important |

**Notes:** $n$ = 215; <1.49 = unimportant, 1.50-2.49 = less important, 2.50-3.49 = moderately important, 3.50-4.49 = important, 4.50-5.00 = very important;
**Source:** Returned questionnaires

### *Motives to operate abroad by Malaysian SMEs*

A review of the literature reveals that firms may be influenced in their internationalisation by more than one motive. The motivations for the internationalisation of SMEs have been categorised in various ways including push and pull factors (Hollenstein, 2005; Wrigley *et al.*, 2005; Hutchinson *et al.*, 2007). Table V shows the motives for the international expansion of Malaysian SMEs. These factors were derived from previous research on the motives for the internationalisation of firms. The respondents were asked to rank internal and external motives using a 5-point Likert scale (where, 1 = the least important and 5 = the most important). The results of the findings are presented in Table IV. It should be noted that the most important motives impacting the internationalisation of Malaysian SMEs are small domestic markets, competitive pressure and exploiting business opportunities internationally. Notably, small domestic markets and intense local competitive pressure, which result in reducing profit margins, are seen as a powerful inducement impacting firms to enter foreign markets. On the other hand, these motives influence the strategic decisions of firms to maintain or enhance their competitive position in the market or industry, which might promote increased sales revenue over time.

**Table V** Driving forces for internationalisation of malaysian SMEs

| *Variables* | *Mean* | *SD* | *Remarks* |
|---|---|---|---|
| To counter domestic business cycle | 4.87 | 1.65 | Important |
| To expand to a bigger market internationally | 4.85 | 1.63 | Important |
| To exploit business opportunity in host country | 4.83 | 1.58 | Important |
| To expand business network and contact | 4.53 | 1.57 | Important |
| To diversify risk internationally | 4.21 | 1.54 | Important |
| To tap geographical location advantage | 4.18 | 1.50 | Important |
| To pursue growth opportunities | 4.10 | 1.45 | Important |
| To increase profitability | 4.06 | 1.45 | Important |
| To be increase turnover and sales | 4.03 | 1.47 | Important |
| To increase market share | 4.00 | 1.57 | Important |
| To gain economies of scale | 4.00 | 1.49 | Important |
| To optimise the usage of firm resources | 3.97 | 1.43 | Important |
| To gain international experience | 3.84 | 1.47 | Important |
| To respond to encouragement of Malaysia's Government to move abroad | 3.71 | 1.48 | Important |
| To follow competitors internationally | 3.50 | 1.40 | Moderately important |
| To secure the availability of raw material or skilled labour | 3.48 | 1.54 | Moderately important |
| To support international customers | 3.47 | 1.45 | Moderately important |
| To be anchor in respective industry internationally | 3.42 | 1.53 | Moderately important |
| To gain investment incentives offered by host/home government | 2.45 | 1.59 | Less important |

**Notes:** $n$ = 213; <1.49 = unimportant, 1.50-2.49 = less important, 2.50-3.49 = moderately important, 3.50-4.49 = important, 4.50-5.00 = very important;
**Source:** Returned questionnaires

### *Perceived barrier for internationalisation of Malaysian SMEs*

Small firms are generally considered to be constrained in their international activities owing to their having fewer resources and limited knowledge and experience than their larger counterparts (Leonidou, 2004). Table VI summarises the problems of most concern for SMEs in Malaysia in their internationalisation attempts. The top five perceived barriers for internationalisation of Malaysia SMEs are:

1. lack of knowledge of international markets;
2. lack of international market data and information;
3. unfamiliar and inconsistent foreign business practices;
4. strong international competition; and
5. insufficient financial resources for international expansion.

### *Network relationship as source of ownership advantage*

SMEs in Malaysia generally possess ownership advantages different from that of small firms from developed countries. What is interesting to note is that network capabilities play an almost equally important role in the internationalisation of Malaysian SMEs in terms of overcoming any difficulties in foreign market expansion. Explanations given by the interviewees indicate that networking with various institutions (government and non-government) has created a source of competitive advantage for SMEs in Malaysia. The following comment is indicative of the responses, "create good rapport with government agencies is important as they provide accessibility to the business information to internationalise". Networking with partners, suppliers, customers and agents helps information flow into firms because of unconditional relationships. One of the Malaysian SMEs emphasised that "you cannot avoid working with other partners in business. You must create contact and build relationships with others for success". On a similar note, the founder of one of the SMEs admitted that:

> Networks are an efficient means of helping internationally oriented Malaysian SMEs to go international more rapidly due to three information benefits: knowledge of foreign market opportunities, knowledge and experiential learning, and referral trust.

Based on the interviews with several key personnel of SMEs, government agencies and related parties (Figure 1), various sources of business networks assisted in the

**Table VI** Perceived important barriers for internationalisation of Malaysian SMEs

| *Variables* | *Mean* | *SD* | *Remarks* |
|---|---|---|---|
| Lack of knowledge of international markets | 4.75 | 1.79 | Very important |
| Lack of international market data and information | 4.53 | 1.75 | Very important |
| Unfamiliar and inconsistent foreign business practices | 4.32 | 1.72 | Important |
| Strong international competition | 4.21 | 1.73 | Important |
| Insufficient financial resources for international expansion | 4.15 | 1.77 | Important |
| Poor/deteriorating economic conditions abroad | 4.03 | 1.69 | Important |
| Lack of government assistance and incentives | 3.87 | 1.69 | Important |
| Language and cultural differences | 3.77 | 1.74 | Important |
| Logistical difficulties in the international market | 3.56 | 1.65 | Important |
| Strict international rules and regulations | 3.23 | 1.72 | Moderately Important |
| Political instability in the destination country | 3.04 | 1.74 | Moderately Important |
| Lack of information about opportunities for the products/services abroad | 2.76 | 1.76 | Moderately Important |

**Notes:** $n$ = 205; <1.49 = unimportant, 1.50-2.49 = less important, 2.50-3.49 = moderately important, 3.50-4.49 = important, 4.50-5.00 = very important;
**Source:** Returned questionnaires

development of SMEs and internationalisation in terms of providing local market information, assistance with regulatory procedures, business and political connections.

*Future direction for international operation*

The majority (63.8 per cent) of the sampled firms had strategic intent for international expansion for the next five years, while 26.3 per cent were planning to remain at the current level of international strategic presence and the rest (9.72 per cent) were undecided (Table VII).

## Discussion and conclusion

By reviewing the different theories all at once, the aim of this paper was to encourage additional and further research of the international development of Malaysian SMEs. The two research questions that have directed learning on the internationalisation process of firms in the context of Malaysian SMEs have yielded the following answers:

- From a theoretical perspective, this paper demonstrates that only certain internationalisation models for firms are suitable to explain the internationalisation of Malaysian SMEs. Although, to some extent, the gradual model presented in the Uppsala theory was expected to explain the internationalisation process, the network perspective seems to be the best-fit approach to describe the internationalisation process of SMEs in Malaysia. Therefore, networks facilitate the internationalisation of SMEs. The results indicate that among the most influential factors for internationalisation were networking or business relationships because they seem to be most adequate, as they enable the company to overcome a number of problems associated with limited resources, experiential knowledge and credibility. This finding supports that of Tan (2008) and Xia *et al.* (2007) that small firms from emerging economies may have to rely on networks to overcome their isolation in the current globalised market. Abdul-Ghani *et al.* (2009) also agree that networking is crucial for Malaysian SMEs to expand into foreign markets, while managerial skills and technological resources were less necessary. Close relationships among the government, foreign partners, financial institutions and business are vital in exploring business opportunities abroad.
- From a managerial standpoint, the findings of this study provide entrepreneurs/business owners/SME managers with an improved understanding of the factors that influence

**Figure 1** Business networks for Malaysian SMEs

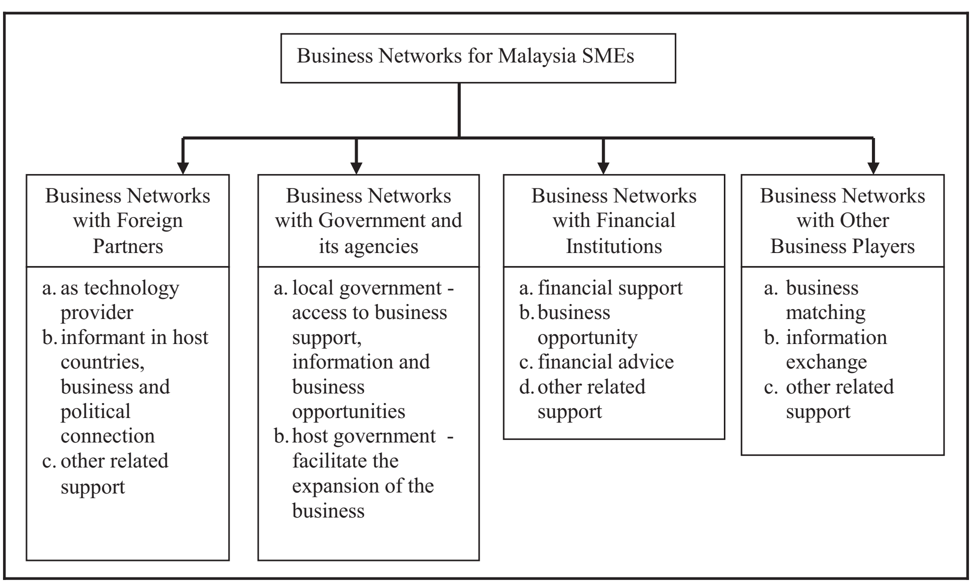

**Table VII** Strategic intent for future international expansion for the next five years

| *Strategic intent* | *Frequency* |
|---|---|
| Expand international expansion | 138 |
| Remain at current level of international presence | 57 |
| Scale down international operation | – |
| Discontinue international operation | – |
| Undecided | 21 |
| Total | 216 |

**Notes:** $n = 216$;
**Source:** Returned questionnaires

their ability to compete in foreign markets. Among other things, the findings reiterate the importance of developing good understanding of the international markets from the perspective of the entrepreneurs/business owners involved in the internationalisation of their firms.

- The key drivers and motives for the internationalisation of Malaysian SMEs are based on entrepreneurial, innovative, idiosyncratic and opportunistic vision, based on their attempts to exploit unique circumstances to stay competitive and even to survive in reaction to the various problems they face in the current business environment.
- From the strategic point of view, it is important to note that the perceived barriers for internationalisation may influence the shape and speed of the internationalisation process of Malaysian SMEs.

## Implications

The findings from the current study have implications for policymakers, managers and researchers interested in SMEs. First, increasing global competition has led to an increasing number of policymakers seeing SME internationalisation as a solution to maintain or increase foreign sales. The government and its related agencies that focus on international business promotion need to recognise different patterns of internationalisation made by the SMEs to provide appropriate support and training programmes for owners/managers of international SMEs. At the managerial level, effort should be made to minimise the inhibiting effect of perceived internationalisation, particularly, on the pre-internationalised stage by using management consultancy and advisory services. Managers/business owners of such SMEs can carefully choose the actions that are congruent with their choice and avoid the wasting of time and resources.

## Limitations and future research

Interpretation of the current study's findings and conclusions, which provide a good source for future studies, should be made in light of certain limitations. First, it studies firms from a single emerging economy, Malaysia, which is believed to differ substantially from other large emerging giants, such as India and China; that said, Malaysia might represent, at least to some extent, the characteristics of other Southeast Asian firms. Future studies may want to extend the study to other newly emerging Southeast Asian countries. Another limitation of the study is connected to the low response rate of respondents and the fact that the SMEs included in the sample represent different business sectors. This small sample size is associated with the fact that the participating firms are restricted to a specific context. Further study should therefore concentrate on a deeper analysis of the differences between countries and business sectors. Future studies could look at the role of industry in the internationalisation process and be conducted cross-nationally. This will allow the testing of the identified relationships across different contexts and different institutional environments. Finally, this study could also be complemented by a longitudinal study of internationalisation of SMEs, as it has being recognised as a powerful framework for understanding organisational growth (Weinzimmer *et al.*, 1998). Therefore, all the results and possible generalisations should be considered with parsimony. Finally, it is hoped that the present study sheds light on this field of research and encourages future research.

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