MODELS, PROCESSES, AND FACTORS INFLUENCING INTERNATIONALISATION: THE CASE OF MALAYSIAN SMES

ZIZAH CHE SENIK

This thesis is submitted for the degree of Doctor of Philosophy of Murdoch University

MURDOCH UNIVERSITY
2010
STATEMENT OF DECLARATION

I declare that this thesis is my own account of my research and contains as its main content work which has not previously been submitted for a degree at any tertiary education institution.

I certify that, to the best of my knowledge, any help received in preparing this thesis and all sources have been acknowledged in this thesis.

________________________
Zizah Che Senik
ABSTRACT

This thesis investigates the processes and influential factors affecting the internationalisation of SMEs in manufacturing industries in Malaysia. Internationalisation of small and medium-sized enterprises (SMEs) has been widely researched but little is known of how and why internationalisation takes place in developing countries and this lack of evidence in the literature provides strong grounds for this study. Jones and Coviello (2005) suggest investigation of internationalisation should include the broad range of internationalisation theories, such as the Incremental and Rapid internationalisation models, Networking, Resource-based and International Entrepreneurship perspectives. These perspectives examine the awareness, process, driving forces and influential factors relevant to SME internationalisation. Therefore, the patterns and dimensions of internationalisation, including the modes of foreign entry, market selection, triggering factors, awareness of international opportunities were investigated, as were the problems and challenges faced by internationalising firms and the key drivers influencing the internationalisation process.

A critical realism paradigm and qualitative method were employed. In-depth interviews were conducted with 16 Malaysian experts and 54 Malaysian-based CEOs, owners, and/ or key executives from SME manufacturing industries using a semi-structured interview guide. The data was analysed with the statistical package NVivo 7 and also manually to improve triangulation of the results. The results are largely inductive and interpretive and are presented in qualitative-themes as well as some basic statistical analyses.

The findings indicate that interrelated factors influence the internationalisation process of Malaysian SMEs. Various paces, a myriad of entry modes and broad market scopes determine the pattern of internationalisation undertaken. A traditional internationalisation pattern is strongly evident, although some companies exhibited
rapid and born global patterns, depending on their industry, products, organisational competencies, knowledge and access to information or because of a change of management. The main drivers of internationalisation centred on key personnel and firm competencies. The study also found that while domestic and global forces motivate internationalisation, aspects of Government policy, procedures and international requirements inhibit the process. More importantly, the findings suggest that networking relationships create internationalisation awareness and provide appropriate pathways to internationalisation for manufacturing SMEs in Malaysia and this is an area where strategies could be improved. The increasing emphasis on the SME sector for enhancing economic and social development in Malaysia means they can make substantial contributions to development and understanding how to improve internationalisation strategies will increase those gains. More transparent government policies and coherence among supporting agencies as well as structured and relevant networks would assist the internationalisation of Malaysian SMEs. Currently, internationalisation processes are constrained by limited resources and difficulty in accessing assistance and supports. This study provides new knowledge and important insights that will benefit manufacturing and other industries in Malaysia and other developing countries.

**Key Words**
Internationalisation, Small and medium-sized enterprises (SMEs), Manufacturing, Driving forces, Networking, Developing countries, Malaysia.
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In the name of Allah, The Most Gracious, The Most Merciful

“Thanks to ALLAH the Greatest, for always guiding and watching over my family and I, and for giving me the courage to complete this thesis”

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“ALHAMDULILLAH”
DEDICATION

TO MY LOVING FAMILY

Husband: Ridzuan
Daughters: Nur Syuhada’, Nur Farhana and Nur Yousra
Sons: Ahmad Bukhari, Muhammad Zaid and Adeeb Luqman

“I can never make it without your endless loves and supports”

In Loving Memories

My parents: Che Senik and Esah, and mother-in-law, Saedah

With Love and Respect

My father-in-law: Md Sham, and my entire families
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<td>AFTA</td>
<td>ASEAN Free Trade Agreements</td>
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<td>AG</td>
<td>Agro Manufacturing Industry</td>
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<td>APEC</td>
<td>Asia-Pacific Economic Cooperation</td>
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<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
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<td>B2B</td>
<td>Business to Business</td>
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<tr>
<td>BH</td>
<td>Biotechnology and Herbal Industry</td>
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<td>CEO</td>
<td>Chief Executive Officer</td>
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<td>DC</td>
<td>Developing Countries</td>
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<td>DOCAS</td>
<td>Dynamic Open Complex Adaptive System</td>
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<td>EE</td>
<td>Electrical and Electronics Industry</td>
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<td>EPU</td>
<td>Economic Planning Unit</td>
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<td>FAMA</td>
<td>Federal Agriculture Marketing Authority</td>
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<td>FB</td>
<td>Food and Beverages Industry</td>
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<td>Federations of Malaysian Manufactures</td>
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<td>Free Trade Zone</td>
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<td>Government to Business</td>
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<td>G2G</td>
<td>Government to Government</td>
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<td>GDP</td>
<td>Gross Domestic Products</td>
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<tr>
<td>GI</td>
<td>Global Firm</td>
</tr>
<tr>
<td>GI</td>
<td>Global Industry</td>
</tr>
<tr>
<td>GLC</td>
<td>Government-linked Corporation</td>
</tr>
<tr>
<td>GSP</td>
<td>Global Supplier Programme</td>
</tr>
<tr>
<td>IE</td>
<td>International Entrepreneurship</td>
</tr>
<tr>
<td>IIM</td>
<td>Incremental Internationalisation Model</td>
</tr>
<tr>
<td>IKMAS</td>
<td>Malaysia and International Research Institute</td>
</tr>
<tr>
<td>ILPS</td>
<td>Industrial Linkage Programme</td>
</tr>
<tr>
<td>IMP</td>
<td>Industrial Master Plan</td>
</tr>
<tr>
<td>IPLC</td>
<td>International Product Life Cycle</td>
</tr>
<tr>
<td>MARA</td>
<td><strong>Majlis Amanah Rakyat</strong> (The Council of Trust for Indigenous People)</td>
</tr>
<tr>
<td>MARDI</td>
<td>Malaysian Agriculture Research and Development Institute</td>
</tr>
<tr>
<td>MATRADE</td>
<td>Malaysia External Trade Development Corporation</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Full Form</td>
</tr>
<tr>
<td>--------------</td>
<td>-----------</td>
</tr>
<tr>
<td>MEDEC</td>
<td>Malaysian Entrepreneurial Development Centre</td>
</tr>
<tr>
<td>MIDA</td>
<td>Malaysian Industrial Development Authority</td>
</tr>
<tr>
<td>MIDF</td>
<td>Malaysian Industrial Development Finance</td>
</tr>
<tr>
<td>MIEL</td>
<td>Malaysian Industrial Estate Limited</td>
</tr>
<tr>
<td>MITI</td>
<td>Ministry of International Trade and Industry</td>
</tr>
<tr>
<td>MNCs</td>
<td>Multinational Corporations</td>
</tr>
<tr>
<td>MNE</td>
<td>Multinational Enterprises</td>
</tr>
<tr>
<td>MP</td>
<td>Malaysia Plan</td>
</tr>
<tr>
<td>MPOB</td>
<td>Malaysian Palm Oil Board</td>
</tr>
<tr>
<td>MTDC</td>
<td>Malaysian Technology Development Corporation</td>
</tr>
<tr>
<td>NF</td>
<td>National Firm</td>
</tr>
<tr>
<td>NI</td>
<td>National Industry</td>
</tr>
<tr>
<td>NIC</td>
<td>Newly Industrialised Countries</td>
</tr>
<tr>
<td>MPC</td>
<td>Malaysia National Productivity Centre</td>
</tr>
<tr>
<td>NSDC</td>
<td>National SME Development Council</td>
</tr>
<tr>
<td>POM</td>
<td>Product-Operation-Market</td>
</tr>
<tr>
<td>RBV</td>
<td>Resource-Based View</td>
</tr>
<tr>
<td>RF</td>
<td>Regional Firm</td>
</tr>
<tr>
<td>RI</td>
<td>Regional Industry</td>
</tr>
<tr>
<td>RIM</td>
<td>Rapid Internationalisation Model</td>
</tr>
<tr>
<td>RP</td>
<td>Rubber and Plastics Industry</td>
</tr>
<tr>
<td>SIRIM</td>
<td>Standards and Industrial Research Institute of Malaysia</td>
</tr>
<tr>
<td>SMEs</td>
<td>Small to Medium Sized Enterprises</td>
</tr>
<tr>
<td>SMI</td>
<td>Small Medium Industry</td>
</tr>
<tr>
<td>SMIDEC</td>
<td>Small and Medium Industries Development Corporation</td>
</tr>
<tr>
<td>SMIDP</td>
<td>Small Medium Industries Development Plan</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>Research and Development</td>
</tr>
<tr>
<td>RM</td>
<td>Ringgit Malaysia</td>
</tr>
<tr>
<td>TM</td>
<td>Transport and Machinery Equipment Industry</td>
</tr>
<tr>
<td>WF</td>
<td>Wood-based and Furniture Industry</td>
</tr>
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</table>
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CHAPTER 1
INTRODUCTION TO RESEARCH AND RESEARCH SETTING

1.1 Introduction

The thesis reports on research into the internationalisation process of various small and medium-sized manufacturing enterprises in Malaysia. As a newly industrialised country, the Malaysian economy predominantly depends on the small and medium enterprise (SME) sector. However, very little is understood about the role and processes of SME internationalisation or how and why SMEs internationalise. This thesis seeks to redress this by reporting research that investigates the patterns of internationalisation; including the modes of foreign entry, market selections, triggering factors, awareness of international opportunities, problems and challenges faced by internationalising firms and the key drivers influencing the internationalisation process.

The internationalisation process of SMEs in manufacturing industries in Malaysia warrants investigation because this sector produces goods for international trade, however there is little empirical evidence of how and why the Malaysian manufacturing SMEs internationalise. SMEs is defined as “an enterprise with full-time employees not exceeding 150 or with annual sales turnover not exceeding RM25 million” (National SME Development Council, NSDC, 2005, p.5-6). This study employed qualitative methods and a critical realism paradigm to explore the views of experts and SME practitioners through in-depth interviews began at the end
of 2005 through early 2006. The results are largely inductive and interpretive although some basic statistical analysis was used to contribute to Malaysian SME Internationalisation Model.

The thesis consists of five chapters. Chapter 1 introduces the thesis and presents the research background, its setting and focus. Chapter 2 reviews relevant literature on SME Internationalisation, to provide a foundation for the integrative conceptual framework for the study. Chapter 3 discusses the research design of the study. Qualitative methods were utilised to interview 16 Malaysian experts on SME development and 54 managers and/or owners of internationalised firms. In Chapter 4, the thematic and statistical results are presented to determine the process and influential determinants of the firm’s internationalisation. Chapter 5 discusses and interprets the findings in comparison to the literature to develop a model of how and why Malaysian SMEs internationalise. The next section introduces the chapter and background to the research.

The chapter begins with an introduction and discussion of the background to the research. The following sections provide a review of the research setting to explain business contexts of the SMEs included in this study and why the internationalisation of SME firms is critical for the country. The next section discusses the research problem, in terms of the aims, objectives and issues involved in conducting the research as well as discussing the justification for and significance of the study. A brief overview of the methodology and significant operational definitions used in the study are also provided. The outline of Chapter 1 is illustrated in Figure 1.1.
1.2 Background to the Research

The internationalisation of firms has been widely researched for over forty years (Werner, 2000) and covers one of the broadest scopes of research today (Ruzzier, Hisrich, & Antoncic, 2006). The internationalisation process of SMEs has been viewed from several perspectives. Traditionally, it has been described by the stage models, which posit that firms gradually internationalise in an incremental manner through a series of evolutionary ‘stages’. These incremental perspectives include the Uppsala School model (Johanson et al., 1977; Johanson & Wiedersheim-Paul, 1975), the Finnish Product, Operation and Market (POM) model (Chetty, 1999; Luostarinen, 1979; Welch & Luostarinen, 1988) and Innovation-related
internationalisation models (Bilkey & Tesar, 1977; Cavusgil, 1980). In contrast, another perspective is the rapid internationalisation model, which posits that many firms internationalise in a rapid manner, and sometimes from inception. These firms are called, among others, Born-Globals (McKinsey & Co., 1993), and International New Ventures (McDougall, Shane, & Oviatt, 1994).

Another perspective is that the pattern of international expansion can be enhanced through networking (e.g., Johanson & Mattson, 1988; Knight & Cavusgil, 1996; Bell & McNaughton, 2000). Yet another perspective that relates to international expansion is Resource-based and this explains the importance of internal drivers such as tangible and intangible resources for SME internationalisation (Barney, 1991; Penrose, 1959; Shepherd & Wiklund, 2005). A more recent perspective, International Entrepreneurship, has arisen from the growing role of entrepreneurs and decision-makers in SME internationalisation (Zahra & George, 2002).

A review of the extant literature suggests that a broad range of internationalisation theories are required for a holistic understanding of the internationalisation process of SMEs (e.g., Bell, McNaughton, Young & Crick, 2003; Etemad, 2004d; Jones & Coviello, 2005; Ruzzier, Hisrich & Antoncic, 2006). Therefore, the conceptual framework of this study integrates these five internationalisation perspectives; Incremental internationalisation, Rapid internationalisation, Networking, Resource-based and International Entrepreneurship.

This thesis adopts the internationalisation definition of “the process of adapting the firms’ operations, for example, the strategy, structure and resources to the
international environment” (Calof & Beamish, 1995, p.116). A plethora of studies on SME internationalisation that focus on the manufacturing and service sectors have been conducted in developed industrialised countries (e.g., Bell, 1995a; Johanson & Vahlne, 1977; Katsikea, Theodosiou, & Morgan, 2007). Only recently has research centred on the SMEs in developing countries or newly industrialised countries (NICs) (e.g., Etemad, 2004a; McDougall & Oviatt, 1996; Sadler & Chetty, 2000). Evidence from developing or newly industrialised countries is still limited (Coviello & Munro, 1995; Das, 1994; Kwon & Hu, 2001) and there is little evidence of study into the internationalisation of industries within the manufacturing sector (Andersson, 2004).

A newly industrialised country is defined as a “country that has recently increased the portion of its national production and exports derived from industrial operations” (Wild, Wild, & Han, 2003, p.125). Malaysia best fits the classification of an newly industrialised country for two reasons. First, for the past five years, the country’s exports recorded a growth of about 10 percent a year (Ministry of Finance Malaysia, 2005), and second, among the ASEAN-4 (Malaysia, Indonesia, the Philippines and Thailand), the net export growth increased from 6.7 percent to 7.3 percent in 2005-2006 respectively (IMF, 2006).

Internationalisation by SMEs is relatively recent in business, yet countries, particularly developed ones, rely on the economic benefits SME internationalisation brings (Havnes, 1998). For example, 98 percent of exporting companies in Sweden (Bjerke, 2007), over 70 percent in Australia (Meredith, 1994), and 97 percent of the SMEs in the US are involved in international activities (Zimmerer & Scarborough,
2002). Significantly, in East Asia, 90 percent of all business enterprises are SMEs, which suggests they have a strong role in enhancing their nation’s employment, and economic and social development (Harvie & Lee, 2002). High rates of SME Internationalisation in developed and industrialised countries demonstrate the benefits NICs and developing countries can gain, so they are encouraged to follow the trend (Raynard & Forstaster, 2002). As Morgan (1997) points out;

“Many developed, newly industrialised and developing countries have identified exporting as a leading priority for their indigenous firms and several have formulated sophisticated export-oriented trade strategies and extensive assistance programmes to encourage export sales to flourish” (Morgan, 1997, p. 68)

The role SMEs play in helping countries become global players has been of central interest among leaders in the Asia-Pacific Economic Cooperation (APEC) and the Association of Southeast Asian Nations (ASEAN). The APEC leaders agree that SMEs play critical roles in enhancing investment, generating jobs and managing sustainable development (APEC, 1996). The ASEAN established ‘The ASEAN SME Working Group’, to act as a networking tool so SME-related agencies can share views to further member country industrialisation (ASEAN SME Blueprint, 2003). However, a question worth asking is how well do the NIC’s understand the internationalisation process? In addition, what internationalisation models best fit and explain the internationalisation of SME in manufacturing sector within the NIC?

Consequently, this study is the first attempt to conduct broad empirical research on internationalisation of SME manufacturing industries within Malaysia. To allow a better understanding of the research setting, brief information on Malaysia and the development of Malaysian SME as international players is provided below. This
includes a discussion about the country’s location, size, political, economic and social environments as well as the Government's industrialisation plans and policy.

1.3 Research Setting: Malaysia

Malaysia gained independence from Great Britain in 1957 and is a parliamentary democracy with a constitutional monarchy. The economy is open and Malaysia is one of the most rapidly growing economies in the world (United Nations, 1994; World Bank, 1990). The country is competitive in attracting direct foreign investments and in 2006, the World Trade Organisation (WTO) ranked Malaysia as the 19th largest trading nation and 19th largest exporter (Rafidah, 2007). Figure 1.2 shows that from 1991 to 2005, GDP grew at an average rate of 6.2% per annum.

Figure 1.2: Real GDP Growth in Malaysia, 1991-2005

Source: Department of Statistics, taken from The National Mission in the Ninth Malaysian Plan (Ninth Malaysia Plan, 2006, p.5)
Similar to other Asian economies GDP and export growth were interrupted by the Asian financial crisis of 1997-1998 (EPU, 2007; Harvie, 2002), but has recovered from 1999 onwards.

The country has a limited local market, with a population of just 27 million, an option for growth is to capitalise on globalisation and economic co-operations, and rapid industrialisation (Mohar-Asri, 2002; Sieh, 2000), which has been the main programme in the Malaysian plans. Malaysia has formulated nine 5-year plans since 1966. The First Malaysian Plan: (1966-1970) started the focus on SMEs development (Mohar-Asri, 1999) and was the turning point of the Malaysian industrialisation drive (Sieh, 2000). From then onwards, Malaysia has transformed from a commodity-based economy to a manufacturing and services-oriented nation. The Ninth Malaysia Plan (2006-2010) emphasizes the need for SME internationalisation ventures by delineating three issues: These are to: 1) strategise international collaboration with high-technology industries; 2) develop innovation-driven SMEs; and 3) promote cross border investments (Ninth Malaysia Plan, 2006).

Malaysia has also implemented three 15 year Industrial Master Plans (IMPs) and SMEs development is entrenched there. The industrialisation era began through the ‘Look East’ policy. This policy was introduced in 1981 by the Mahathir administration, and has become the turning point for national development and industrialisation policy in Malaysia (Che Rose, 2002). Rapid industrialisation has followed since then and the Ministry of International Trade and Industry (MITI) identified SMEs as central to the deepening of key industry clusters.
The IMP2 (1996-2005) established Small and Medium Industries Development Corporation (SMIDEC) and Malaysia External Trade Development Corporation (MATRADE) as the two principal agencies for SME development and expansion. Other agencies directly linked with MITI are the Malaysian Technology Development Corporation (MTDC), Malaysian Industrial Development Finance (MIDF), and the National Productivity Corporation (NPC). The more recently launched IMP3: 2006-2015, sets three main aims for SMEs: 1) to seek outward investment opportunities; 2) to establish best business practices; and 3) to develop greater resilience for global competition. To realise these aims SMEs are asked to compete with leading firms in strategic industries and adopted innovative technologies; in return they are guaranteed greater access to commercial funds and financial support (IMP3 MITI, 2006).

Through the industrialisation programme, SMIDEC has introduced an industrial linkages programme (ILP) and Global Supplier Programme (GSP) to assist SMEs become industry suppliers. These programmes link the Malaysian SMEs with large local or foreign corporations. MATRADE is to assist Malaysian firms to better position their products and services in the highly competitive global markets. As one of the newly industrialised countries (NICs), Malaysian-made products such as consumer electronics, software, telecommunications, foods, biotechnology are making steady inroads into international markets (Root, 1994). In addition, the setting up of numerous foreign direct investments (FDIs) facilities in Malaysia has resulted in many small to medium industries (SMIs) being established as suppliers to these FDIs (SMIDEC, 2002).
1.4 SMEs in Malaysia: An Overview

This section discusses the role of SMEs in Malaysia in general and more specifically, provides definitions of SMEs, including the research definition within the manufacturing sector. The policies and incentives that support SME development, their objectives, strategies and phases of development are also discussed.

1.4.1 Definitions of SMEs

In Malaysia, the term ‘SME’ is often used interchangeably with small and medium scale industries ‘SMI’ (Chee, 1986; IMP3 MITI, 2006). Until the establishment of the National SME Development Council (NSDC) in 2004, there were no common definition of SMEs among the different Malaysian agencies and institutions (Moh-Asri, 1999). The NSDC (2005) suggests it is necessary to introduce standard definitions for SMEs, since the present definitions centre on the manufacturing sector, neglecting other sectors.

Two criteria characterise the standardised definitions: the number of employees or annual sales turnover. These apply to four main sectors: 1) Primary Agriculture; 2) Manufacturing (including agro-based); 3) Manufacturing-Related Services; and 4) Services (including information and Communications Technology). Table 1.1 shows the range of current SME definitions in Malaysia.
### Table 1.1: Approved Standard SME Definitions (as of June 2005)

<table>
<thead>
<tr>
<th>Size</th>
<th>Number of Full-Time Employees</th>
<th>Annual Sales Turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Manufacturing (including Agro-based &amp; MRS)</td>
<td>Services Sector (including ICT and Primary Agriculture)</td>
</tr>
<tr>
<td>Micro</td>
<td>Less than 5 employees</td>
<td>Less than 5 employees</td>
</tr>
<tr>
<td>Small</td>
<td>Between 5 and 50 employees</td>
<td>Between 5 and 19 employees</td>
</tr>
<tr>
<td>Medium</td>
<td>Between 51 and 150 employees</td>
<td>Between 20 and 50 employees</td>
</tr>
</tbody>
</table>

*Source: Adapted from NSDC, (NSDC, 2005, p.5-6; SMIDEC, 2006, p.18).*

**Key:** MRS – Manufacturing Related Services  
**NB:** The exchange rate fluctuates, for example, approximately: A$1:RM3; US$1: RM3.40; UK€1: RM7.

### 1.4.1.1 Research Definition

Researchers have applied their own definitions of SMEs, according to their specific focus (Moh-A-Ari & Bakar, 2002; Prashantham & Berry, 2004b). In Malaysia, a number of researchers defined SMEs as having less than 200 employees and fixed assets of less than RM2.5 million (Aziz, 1981; Chee, 1986; Moh-A-Ari, 2002; Salleh, 1991). Hashim and Wafa (2002) include qualitative and quantitative components, where the quantitative involves definition as “a firm that employs 10 to 300 full-time employees and has a paid-up capital of less than RM10 million to RM49 million”, whereas the four qualitative criteria, these being: “actively managed by its owner, highly personalised, largely local in its area of operations and largely dependent on internal sources of capital to finance its growth” (Hashim et al., 2002, p.10-12).

This current study adopts Hashim and Wafa (2002) quantitative definition, but only considers the first two qualitative measures. In addition, since MATRADE and Federation of Malaysian Manufacturers directories were referred to identify the
respondents, three other criteria were necessary to explain the qualitative components of SMEs. Therefore, the research definition of SMEs in this study is as follow:

“A firm that employs 10 to 300 full-time employees and has a paid-up capital of less than RM10 million to RM49 million. The firm: 1) is actively managed by its owners; 2) is highly personalised; 3) is currently engaged in outward operations; 4) owns manufacturing facilities in Malaysia; and 5) is located within the small to medium industrial zones”.

1.4.2 Profile of SMEs in Malaysia

Small and medium sized enterprises are scattered throughout Malaysia at 20 SMI industrial areas and SME zones as well as outside vicinities (Refer to the map of Malaysia in Appendix 1). This map shows that the largest concentration of SMEs is found in the Central Region (37.1%), followed by the Northern Region (19.5%), Eastern Region (16.8%), Southern Region (14.2%), with the lowest concentration in Sabah and Sarawak Region (10.4%). Respondents for this current study were drawn from the central region; from Kuala Lumpur and Selangor, which forms the ‘Klang Valley’. These SMI industrial areas were selected because of they are the densest regions and possibly have a greater internationalisation effort.

The status of SMEs in Malaysia within three sectors is shown in Table 1.2. Exporters are mainly located in the manufacturing sector (57.6%), although substantial numbers of service providers also export (40.6%). The percentage of agriculture exporters is much smaller (1.8%). Of the 37,866 SMEs in the manufacturing sector, with 14% are active exporters, and they contribute 19% of total Malaysian exports (SME, 2006).
Table 1.2: General Profile of SMEs

<table>
<thead>
<tr>
<th>Sector</th>
<th>Establishments</th>
<th>Number of SMEs</th>
<th>Percentage of SMEs</th>
<th>Percentage of Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>39,219</td>
<td>37,866</td>
<td>96.6%</td>
<td>7.3%</td>
</tr>
<tr>
<td>Services</td>
<td>451,516</td>
<td>449,004</td>
<td>99.4%</td>
<td>86.9%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>32,397</td>
<td>32,126</td>
<td>92.6%</td>
<td>6.2%</td>
</tr>
<tr>
<td>Overall Total</td>
<td>523,132</td>
<td>518,996</td>
<td>99.2%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: SME Performance Report 05 (Department of Statistic Malaysia, 2006).

The distribution of SMEs in the manufacturing sector according to company size is available from Census 2000 and 2005 and is shown in Table 1.3.

Table 1.3: Distribution of SMEs in the Manufacturing Sector

<table>
<thead>
<tr>
<th>Type</th>
<th>Census 2005</th>
<th>Census 2000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of Establishments</td>
<td>Share (%)</td>
</tr>
<tr>
<td>Micro</td>
<td>20,952</td>
<td>53.4</td>
</tr>
<tr>
<td>Small</td>
<td>14,955</td>
<td>38.1</td>
</tr>
<tr>
<td>Medium</td>
<td>1,959</td>
<td>5.0</td>
</tr>
<tr>
<td>Total SMEs</td>
<td>37,866</td>
<td>96.5</td>
</tr>
<tr>
<td>Large</td>
<td>1,353</td>
<td>3.5</td>
</tr>
<tr>
<td>Total Manufacturing</td>
<td>39,219</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Department of Statistics; (SMIDEC, 2006, p. 21)

Of 39,219 active manufacturing companies, 37,866 (96.5%) are SMEs. Table 1.3 shows the number has increased nearly 50% from 2000 to 2005. The rise is likely due to the government programmes encouraging the development of high value-added and high technology SMEs in the manufacturing industries. Micro enterprises form the largest group in Census 2005, while small enterprises dominated in Census 2000 (Department of Statistic Malaysia, 2006).

1.4.3 Policy Supports and Incentives

Currently, SME development is under the administration of the National SME Development Council (NSDC), which was established in 2004, and more than 12 ministries and 38 agencies are involved. The Ministry of International Trade and
Industry (MITI) and the Ministry of Entrepreneurship and Cooperation Development (MECD), assisted by agencies, such as, Small and Medium Industries Development Corporation (SMIDEC), Majlis Amanah Rakyat (MARA), Malaysia External Trade Development Corporation (MATRADE), and Malaysian Technology Development Corporation (MTDC) are responsible for providing international support and programmes (SMIDEC, 2002).

The supporting bodies role is to implement programmes targeted at developing SMEs (Mahajar & Carraher, 2006) and linking Malaysian SMEs with large, local or foreign-owned corporations. They encourage internationalisation through subcontracting, exporting, and collaborating via joint ventures, licensing or franchising (Mori, 2005; SMIDEC, 2002). The government has also actively contributed to regional initiatives on SME development under the Association of Southeast Asian nations (ASEAN) and Asia-Pacific Economic Cooperation (APEC). This Regional cooperation helps create opportunities and networks for Malaysian SMEs venturing abroad and for foreign companies to find business counterparts in Malaysia (SME, 2006).

1.4.4 Objectives and Strategies for SMEs Development

The Malaysian’s government mission for SMEs development is to create balanced economic and socio-economic growth for the nation. This thrust is demonstrated in Figure 1.3. his figure illustrates that the main economic objectives are to enhance SME viability across all sectors as well as promote SME development in knowledge-based industries. The socio-economic objectives on the other hand, aim to enhance the contributions of all SMEs to the nation’s economics.
Figure 1.3: Overview of SMEs Objectives and Strategies in Malaysia

Source: Adapted from SME Annual Report 2006: National SME Development Council Malaysia (NSDC, 2007, Chapter 4, p.53)

The Government seeks to balance economic and socio-economic development through three strategic thrusts in SME development by firstly, strengthening enabling infrastructures; secondly, building capacity and capability; and thirdly, enhancing access to financing. By giving priority to SMEs development, the Malaysian government aims to increase SME contributions to GDP in 2006 from 32% to 37% and total exports from 19% to 22% by 2010 (NSDC, 2007).

1.4.5 Phases of SMEs Development

To integrate SME growth opportunities with industrial development, an integrated ‘blueprint’ based on four phases was introduced (SMIDEC, 2002), and this is illustrated in Figure 1.4. The phases are: (I) Start-up Phase; (II) Growth Phase; (III) Expansion Stage; and (IV) Maturity Stage.
Figure 1.4: Four Phases of SMEs Development in Malaysia

Source: Adapted from SMI Development Plan 2001-2005(SMIDEC, 2002, p.55)

- At the Start-up Phase (I), SMEs need basic requirements, such as seed capital, management skills, adequate raw materials and infrastructure, Research and Development incubators and market knowledge to build their internal strengths, and capability for international expansion.

- The Growth Phase (II) prepares an organisation to access export markets by obtaining international certifications and standards, technical and automated process assistance, tax benefits and market development. Thus, SMEs gain more knowledge and discover avenues on how to operate in foreign markets.

- The Expansion Stage (III) involves capacity building in the form of technological, management and ICT, where quality-branding development becomes the critical issue. At this stage, venture capital, outsourcing, and distribution channels need to be evaluated and considered by the SMEs.

- At the Maturity Stage (IV), SMEs should focus on gaining global competitive advantages by designing global products and using their brand image through advanced industrial infrastructures to accomplish overseas ventures.
The latest SME report by the National SME Development Council shows a total expenditure of RM7.8 billion which involved 213 major industrialisation programmes were implemented (NSDC, 2007). This has benefited more than 287,000 SMEs by enhancing their industrial capacity and capability for internationalisation. Consequently, taking an integrated approach does “enhance the value chain and encourage cluster-based industrial development” within the manufacturing sector in Malaysia (Saleh & Ndubisi, 2006a, p.2).

Nonetheless, this study has identified that although the Government blueprint is a holistic model; no research has been undertaken so far to establish its practical implications. Therefore, it is timely to research whether Malaysian SMEs do follow the four phases ‘blueprint’ or whether they use other approaches to internationalisation. Internationalisation studies have identified that organisations can follow a range of different strategies, such as incremental or staged approach (Johanson et al., 1977); or they can implement a faster approach by going international at start-up as international new ventures or born global (Oviatt & McDougall, 1994). They can also rely on ‘networking’ to assist them in international ventures (Johanson & Mattson, 1988).

1.5 SMEs and Internationalisation Issue

This section discusses international trade patterns of Malaysian SMEs and provides a comparison with other selected countries, in regards to definitions, number of establishments, employment, GDP contributions and the challenges facing SMEs.
1.5.1 International Trade Patterns

The direction of Malaysian exports has changed due to global trade patterns and greater regional integrations. Table 1.4 illustrates changes in export destinations from 2000 and 2006. In 2000, the major markets for Malaysia were the US, Singapore, EU and Japan. Although, the first three markets remain as the main partners, exports have declined between 0.5% to almost 5%, with the Japanese market having the greatest decline (-4.3%). In 2006, the exports inclined towards East and South Asia, and in particular China and India. China is seen as the driving force behind the integration of the East Asian region and is becoming an important trading partner for Malaysia (+4.1%). India, with its strong advantages of a high technology industry, has become the fifth largest international partner (NSDC, 2007).

Table 1.4: Direction of Exports in 2000 and 2006

<table>
<thead>
<tr>
<th>Country</th>
<th>2000 (% share)</th>
<th>2006 (% share)</th>
<th>Change (+ or -)</th>
<th>Change (↓ or ↑)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States (US)</td>
<td>20.5%</td>
<td>18.8%</td>
<td>-1.7%</td>
<td>↓</td>
</tr>
<tr>
<td>European Union (EU)</td>
<td>13.7%</td>
<td>12.7%</td>
<td>-1.0%</td>
<td>↓</td>
</tr>
<tr>
<td>New Industrialised Economies (NIEs)</td>
<td>11.7%</td>
<td>11.3%</td>
<td>-0.4%</td>
<td>↓</td>
</tr>
<tr>
<td>Singapore</td>
<td>18.4%</td>
<td>15.4%</td>
<td>-3.0%</td>
<td>↓</td>
</tr>
<tr>
<td>Japan</td>
<td>13.2%</td>
<td>8.9%</td>
<td>-4.3%</td>
<td>↓</td>
</tr>
<tr>
<td>ASEAN (excluding Singapore)</td>
<td>7.8%</td>
<td>10.5%</td>
<td>+2.7%</td>
<td>↑</td>
</tr>
<tr>
<td>The People’s Republic of China</td>
<td>3.1%</td>
<td>7.2%</td>
<td>+4.1%</td>
<td>↑</td>
</tr>
<tr>
<td>Rest of the world</td>
<td>11.7%</td>
<td>15.2%</td>
<td>+3.5%</td>
<td>↑</td>
</tr>
</tbody>
</table>

Source: Adapted from the National SME Development Council (NSDC, 2007,p.23)

SMEs contribute to the economic growth in many countries as they are a tool for international trade and investment (Karikomi, 1998). Table 1.5 shows SME contributions, such as total establishment, workforce and GDPs in selected countries. As shown in the table, in average, SMEs contribute to more than 89% of total establishment, about 70% of workforce and 42% of the GDP.
Table 1.5: International SME Development and Growth (Updated in 2007)

<table>
<thead>
<tr>
<th>Country (year)</th>
<th>Total establishment (%)</th>
<th>Total workforce (%)</th>
<th>SMEs contribution to GDP (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malaysia (2005)</td>
<td>99.2</td>
<td>56.4</td>
<td>32.0</td>
</tr>
<tr>
<td>Japan (2004)</td>
<td>99.7</td>
<td>71.0</td>
<td>55.3</td>
</tr>
<tr>
<td>Chinese Taipei (2005)</td>
<td>98.0</td>
<td>76.9</td>
<td>40.0</td>
</tr>
<tr>
<td>Korea (2003)</td>
<td>99.8</td>
<td>86.5</td>
<td>49.4</td>
</tr>
<tr>
<td>Thailand (2002)</td>
<td>99.6</td>
<td>69.0</td>
<td>38.9</td>
</tr>
<tr>
<td>Singapore (2004)</td>
<td>90.0</td>
<td>45.0</td>
<td>25.0</td>
</tr>
<tr>
<td>Germany (2003)</td>
<td>99.7</td>
<td>79.0</td>
<td>49.0</td>
</tr>
<tr>
<td>China (2004)</td>
<td>99.0</td>
<td>75.0</td>
<td>56.0</td>
</tr>
<tr>
<td>Philippines (2003)</td>
<td>99.6</td>
<td>70.0</td>
<td>32.0</td>
</tr>
<tr>
<td><strong>Average (%)</strong></td>
<td><strong>89.3</strong></td>
<td><strong>69.9</strong></td>
<td><strong>42.0</strong></td>
</tr>
</tbody>
</table>

Source: Adapted from the National SME Development Council (NSDC, 2007, p. 26)

Harvie and Lee (2003) posit that SME contributions differ widely among countries, depending on level of economic and social conditions, which rely on the government support policies. For example, SMEs in Vietnam contribute more to the country because they receive more preferential supports, in terms of special credit loans, tax incentives, training assistance, support in importing equipment and transferring technologies (Nguyen, Neck, & Nguyen, 2008b). Although some Malaysian SMEs receive supports from the government, they only contribute to 56.4% and 32% for employment and GDP, which in fact lower to compare with other regional economies, such as Thailand and Philippines, suggesting big opportunities for domestic SMEs to expand their role.

1.5.2 International Issues and Challenges

SMEs face many issues and challenges when internationalising. Within the East Asia region, the main drawbacks are the lack of resources (e.g., finance, technology, skilled labour, access to markets and information), lack economies of scale and scope, high transaction costs, high market structures and intense competition against
larger firms (Harvie, 2008). Nevertheless, most small business face challenges on financial management and decision-making (Ray & Neck, 2007).

In Malaysia, several researchers, such as Abdul Rashid and Tan (2002), Moha-Asri (1999), Saleh and Ndubisi (2006b) and the government institutions (Bank Negara Malaysia, 2005; NSDC, 2007; SMIDEC, 2006) have pointed out a number of issues Malaysian SMEs in the manufacturing sector face. These are highlighted in Table 1.6.

<table>
<thead>
<tr>
<th>Table 1.6: Issues in SME Internationalisation in Malaysia</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Domestic</strong></td>
</tr>
<tr>
<td>● Red tape in the government institutions and agencies</td>
</tr>
<tr>
<td>● Inconsistencies in policy implementation amongst government bodies and agencies</td>
</tr>
<tr>
<td>● Lack of a comprehensive framework in regard to the policies on SME development</td>
</tr>
<tr>
<td>● Inappropriate industrial sites</td>
</tr>
<tr>
<td>● Lack of transparency from the many government bodies and agencies</td>
</tr>
<tr>
<td>● Difficulties in assessing loans, other forms of financial assistance, incentives and supports</td>
</tr>
<tr>
<td>● Lack of government assistance in overcoming export barriers</td>
</tr>
<tr>
<td>● Complexity of export documentation requirements</td>
</tr>
<tr>
<td>● Lack of skilled and qualified employees in SMEs</td>
</tr>
<tr>
<td>● Lack of qualified and committed employees in government agencies</td>
</tr>
</tbody>
</table>

Source: Compilation of resources (Abdul Rashid et al., 2002; Bank Negara Malaysia, 2005; Harvie et al., 2003; Moha-Asri, 1999; NSDC, 2007; Saleh et al., 2006b; SMIDEC, 2006; Zizah, Entrekin, & Scott-Ladd, 2006)

This indicates that SMEs in Malaysia encounter many challenges domestically and globally. According to SMIDEC (2002), they face three main challenges, including intensified global competition, new and emergent technologies and high factor costs.
Notwithstanding, technology is important for integrating production into global chains and the cost required for export competitiveness can be unbearable for small firms. Additionally, broader and global challenges, such as market liberalisation, free trade agreements (FTAs) at regional or international levels and the use of advanced technologies have resulted in more highly innovative products, which create another challenge for Malaysian SMEs. In just the past two years, Malaysian SMEs have faced rapid competition from China and India because of the open policy and market liberalisation (Hashim & Hassan, 2008).

Market liberalisation involves a freer, more liberalised trading environment but also brings new competitors who can threaten traditional market shares. Greater liberalisation opened Malaysian borders to imports and exports from countries like China, and Taiwan who can offer cheaper prices (SMIDEC, 2006). Currently, Malaysian SMEs must be alert to the potential impact of further liberalisation through the World Trade Organisation (WTO) and regional agreements, such as the ASEAN Free Trade Agreement (AFTA) that increase economic competitiveness for Malaysia. With increasing international trade, SMEs face greater vulnerability when formulating plans for overseas ventures. In addition, rising environmental awareness in the global supply chain adds further costs as SMEs comply with ‘greener’ technology standards. Thus, overall SMEs in Malaysia should raise their level of competitiveness if they are to maintain domestic market share and penetrate new external markets.

The Malaysian government is seeking to channel SMEs, and particularly those in the manufacturing sector, towards becoming more active global players. SMEs must
develop competitive advantages so they can compete in global supply chains, sustain inter-firm linkages and provide innovative and better quality-international standard products (Ninth Malaysia Plan, 2006). These strategies would facilitate SME entry into new export markets and ensure a stronger growth in SMEs manufactured exports (SMIDEC, 2006). The next section describes the research problem including the aims and objectives and provides a justification for the methodology used. The operational definitions for the study are also explained.

1.6 Research Problem

Malaysia as one of the newly industrialised countries has acknowledged that the international trade is a crucial growth area. Malaysia’s open policy has attracted multinational corporations (MNCs) build up manufacturing facilities in the country (Sieh, 2000). For that reason, the Malaysian government is pushing SMEs into global market by increasing funding for training, expansion and export development (MITI, 2001). SMEs international operation is emphasised in Malaysia’s Third Industrial Master Plan (2006-2015), which states that “SMEs will be encouraged to capitalise on outward investment opportunities…” (IMP3 MITI, 2006, p.163). In addition, political stability, a first-class physical infrastructure, and a skilled, multicultural and multilingual workforce (The New Straits Time, 2006), help bring new opportunities for SME international operations. The role of SMEs in Malaysia is critical in this process.

The former Prime Minister of Malaysia, Tun Mahathir Mohamad, who envisioned the country becoming a fully developed and industrialised nation in the Vision 2020,
has moved the Malaysian SMEs toward global orientation and world-class operations (NST, 1996). Recently, the importance of the SMEs sector is manifested in the keynote address by the Prime Minister of Malaysia in the ASEAN+3 SMEs Meeting 2006:

“As in many industrialising economies, SMEs in Malaysia represent an important segment of the economy given their role in forging both forward and backward linkages through their support of larger companies, including the multi-national companies (MNCs). In view of their significant role, the government will continue to support the development of Malaysian SMEs to enhance their resilience and competitiveness as well as to increase their economic contribution”. (Dato' Seri Abdullah Ahmad Badawi, 2006)

Some studies on SME internationalisation have been found within the Malaysia context. These include for instance, the internationalisation strategies among emerging multinational enterprises (Sim, 2005), the impact of networking and relationships to the SME internationalisation process (Zain & Ng, 2006), issues and problems in export management (Abdul Rashid et al., 2002), and the factors influencing internationalisation (Zizah, Scott-Ladd, Entrekin, & Ridzuan, 2007b). Although these articles provided some evidence of evaluating internationalisation issues, none has exclusively investigated the internationalisation process of Malaysian SMEs within the manufacturing sector. An inclusive framework for researching this issue is strongly recommended (Coviello & McAuley, 1999; Gassmann & Keupp, 2007). Further, an inclusive study at an identified setting allows generalisation and prediction of the SME Internationalisation behaviour to be made (Jones et al., 2005).
We have identified reasons why SME in Malaysia need to internationalise, but what still remains to be discovered is the processes and modalities that support their doing so. Understanding the patterns and dimensions of internationalisation whether this occurs through network relationships or other foreign entry modes, will help to identify the factors that facilitate or hinder internationalisation, and therefore warrants investigation. As Kirk (2004) points out:

“Internationalisation issues become increasingly important to business, there is a growing need to research and understand when, how and why entrepreneurs internationalise their firms” (Kirk, Foreword from Dana, 2004, p.ix)

Having identified that internationalisation research into SMEs in newly industrialised countries, such as Malaysia is at early stage (Ghauri, Lutz, & Tesfom, 2003; Kuada & Sörensen, 2000; Prashantham, 2004; Zafarullah, Mujahid, & Young, 1998) and evidence within the manufacturing sector is still lacking, this study takes an exploratory approach (Sekaran, 2003; Yin, 1994). Therefore, the research problem addressed in this study is:

How do Malaysian Small and Medium-sized Enterprises (SMEs) internationalise and what affects the internationalisation process within manufacturing industries in Malaysia?
1.7 Research Issues and Questions

When addressing a research problem, Wright (2004) suggests that the questions of ‘why’, ‘how’, and ‘what’ are relevant and Dana (2004) advises ‘when’ is also important for qualitative research into the issue of SME Internationalisation. Their advice has been heeded, as has Coviello and McAuley’s (1999) suggestion that an inclusive approach is needed to address the research problem. The central research question of this study is:

*What are the patterns and dimensions of internationalisation within Malaysian SME manufacturing industries and what are the factors influencing their internationalisation process?*

To address this broad exploratory question, four research components have been identified including 1) Internationalisation Awareness, 2) Internationalisation Process, 3) Driving Forces and 4) Influential Factors, as depicted in Figure 1.5.

**Figure 1.5: Four Components of Internationalisation Issues in This Thesis**

<table>
<thead>
<tr>
<th>I: Internationalisation Awareness</th>
<th>II: Internationalisation Process</th>
</tr>
</thead>
<tbody>
<tr>
<td>The awareness concerning international expansion: How the awareness was created; who created the awareness; what caused the awareness.</td>
<td>The dimensions: (pace, foreign entry mode, market selections, number of markets). The pattern: Traditional, Rapid or Born Global - Effect of time and the characteristics of the patterns.</td>
</tr>
<tr>
<td>III: Driving Forces</td>
<td>IV: Influential Factors</td>
</tr>
<tr>
<td>Factors that facilitate and inhibit the process of internationalisation: Effect of ‘psychic distance’; Internal context (firm, industry and national) and international context.</td>
<td>Factors influencing internationalisation process: Effect of firm specific, key personnel, managerial, competitive advantage, international orientation, entrepreneurial orientation, Resources.</td>
</tr>
</tbody>
</table>

*Source: Developed for this thesis*
The level of analysis involved SMEs in manufacturing industries and the owners or key managers of internationalised SMEs. The four research components are described as follows:

- **Component I: Internationalisation awareness** refers to how the awareness was created; who created the awareness; and what caused the awareness.

- **Component II: The Internationalisation Process** refers to the dimensions, such as pace, entry mode and markets and patterns of internationalisation, such as traditional, rapid or born global. This also reveals the specific characteristics of each pattern.

- **Component III: The Driving Forces** refer to the factors that facilitate or inhibit the internationalisation process. These include the specific reasons for internationalisation that are involved from the internal and external environments and the effect of psychic distance.

- **Component IV: The Influential Factors** were the firm specific and key personnel factors that influenced the internationalisation process. This component also included the firm’s vision and goals, unique resources, competitive advantages, international orientation, managerial capabilities and entrepreneurial orientations.

These four components can lead to a better understanding of the SME internationalisation process and provide significant insights that have not been addressed thus far within the Malaysian context.
To understand these research components, the following open research questions were formulated to address the exploratory research problem and central research question:

**Research Question 1:**
How is awareness about firm internationalisation created among SMEs in various manufacturing industries?

**Research Question 2:**
How can the internationalisation process of SMEs in various manufacturing industries be best described? More specifically, what pattern and pace of internationalisation do Malaysian SMEs follow? In addition, what mode of foreign entry, market selection and number of markets influence the process.

**Research Question 3:**
What driving forces influence the internationalisation process of Malaysian SMEs in various manufacturing industries? More specifically, what motivates SMEs to internationalise and what impediments do they encounter in their internationalisation process?

**Research question 4:**
What factors affecting the internationalisation process of SMEs in manufacturing industries in Malaysia? More specifically, what firm specific factors and key personnel factors contribute to the internationalisation of the SMEs?
1.8 Research Aims and Objectives

The overall purpose of the thesis is to gain insights into the internationalisation behaviour, pattern, speed, entry mode and scope of SMEs in the manufacturing industries and to arrive at a better understanding on what affects the internationalisation process of Malaysian SMEs. The aims of the study are twofold:

1. To explore the factors that influence the internationalisation process of SMEs in Malaysia. Within this aim, the influential factors of internationalisation within the Malaysian SMEs sector will be identified;

2. To develop an integrated model that explains SME internationalisation for the manufacturing sector within the Malaysian context. Within this aim, various perspectives, such as stage models, rapid internationalisation models, networking, resource-based and international entrepreneurship models will be examined.

With these two aims, the objectives of this study are as follows:

1. to explore and better understand the concept of SME Internationalisation and to identify what initiates internationalisation awareness among SMEs in the manufacturing sector;

2. to describe the internationalisation process by examining the dimensions, patterns and scopes, and to determine if specific characteristics of the internationalisation patterns can identify if there is a best fit internationalisation process model (amongst the stage models, rapid internationalisation models and born global model) to describe the internationalisation of SMEs in Malaysian manufacturing industries;
3. to identify the driving forces that foster and hinder the internationalisation process and the key drivers in terms of firm specific and managerial factors that influence the internationalisation process of the Malaysian SMEs;
4. to determine the other influential affecting the internationalisation process of Malaysian SMEs; and
5. To develop an internationalisation process model for SMEs that are operating within a highly supportive environment for SME development.

1.9 Justifications for Researching into SME Internationalisation

This section provides justification as to why researching SME internationalisation in the manufacturing sector in Malaysia is necessary. To understand the internationalisation issue for SMEs, an extensive literature review was conducted. Internationalisation of Malaysian SMEs is a new research area (Yeung, 2004b), as most of the literature favours developed and industrialised countries, and gives little empirical evidence and little attention to the developing world and emerging economies (Prashantham, 2004). This broad review of literature justifies research into manufacturing industries in Malaysia for theoretical, methodological, contextual, and personal reasons, and the lack of empirical evidence from Malaysia. These are briefly described in this section.

1.9.1 Theoretical Justification

Welch and Luostarinen (1988) anticipate that the internationalisation process crosses diverse theories. The literature has identified various views on firms’ internationalisation, such as: 1) Process and Stage Models; 2) Network Perspective;
3) the Born-Global or International New Venture models; 4) Resource-based View; and 5) the International Entrepreneurship concept (Andall & Fischer, 2005). These theories have all contributed to the contemporary understanding of SME Internationalisation (Morgan & Katsikeas, 1997).

Despite the variety of understandings, SME internationalisation theory is still inconclusive (Etemad, 2004d; Welch et al., 1988). Many argue that this is because a holistic approach based on a common conceptual framework is lacking. Because internationalisation is a complex area of research (Matlay & Mitra, 2004; Zalan & Lewis, 2004) it is unlikely that one particular view can fully explain the process; therefore, Jones and Coviello (2005) recommend that researchers take a more integrated and inclusive approach in researching the topic. Therefore, this study examines the five main views within its research framework, in the belief that this will provide a better understanding than the fragmented explanation on specific components.

1.9.2 Methodological Justification

According to Peterson (2004), research on the SME internationalisation has been dominated by quantitative methods for the last three decades. Marschan-Piekkari and Welch (2004a) state that qualitative methods only contribute to 8.5% of publications within International Business. Because of the complexity of the subject, a number of researchers recommend using qualitative methods (Andersen & Skaates, 2004; Welch & Welch, 2004; Zalan et al., 2004) especially when small number of potential respondents are available (Hesse-Biber & Leavy, 2006). Therefore, this study is taking up the challenge to add up to qualitative empirical data, even though
“Qualitative research is not an easy option. It can be expensive, time consuming, risky ...” (Buckley, Foreword from Marcschan-Piekkari and Welch, 2004, p. xvii).

1.9.3 Contextual Justification

Since few studies have examined the internationalisation process in emerging markets and newly industrialised countries, this has resulted in limited evidence or knowledge of the processes that contribute to SME Internationalisation development (Coviello & Jones, 2004; Crick, Obaidi, & Chaudry, 1998; Mtigwe, 2005). Although extensive research into the internationalisation process of SMEs has been undertaken in developed and industrialised countries (Coviello & Munro, 1997; Gemser, Brand, & Sorge, 2004; Leonidou & Katsikeas, 1996; Moen & Servais, 2002; Wickramasekera & O'Donovan, 2004), and Western internationalisation theories have been widely applied, these are through the lenses of others. Researchers recognised that the adopted Western-based management practices within Asian context differ because of different business and culture conditions (Nguyen et al., 2008b).

Therefore, arguably the evidence is not fully suited to understanding the Malaysia context. For example, Crick and Dana (2004) argue that Western and Eastern perceptions of what influences internationalisation are not fully comparable since Malaysia practices different values, beliefs, politics and cultures (Othman, Domil, Zizah, Abdullah, & Hamzah, 2006). Therefore, research within the Malaysian context, can help to establish if existing western models are in any way applicable.
1.9.4 Empirical Evidence Justification (Malaysia)

Although empirical evidence on Malaysian SMEs and ‘international activities’ have been identified, but SME internationalisation has not been the focal issue. Rather international related issues such as exporting, policy, cultural, management, problems and the challenges in exporting and the challenges of industrial linkages programme were observed (Abdul Rashid et al., 2002; Bjerke, 2000; Moha-Asri, 1999; Mori, 2005). Recently, the ‘SME internationalisation’ term has been applied in research focusing on a range of issues within the SME sector; these include internationalisation strategies, network relationships, patterns of internationalisation and influential factors to internationalisation (Andersson, Eriksson, & Lundmark, 2006; Sim, 2005; Zain et al., 2006; Zizah et al., 2006; Zizah, Ridzuan, Scott-Ladd, & Entrekin, 2007a). However, inclusive evidence of internationalisation process within Malaysian SMEs in various manufacturing industries is still lacking.

1.9.5 Personal Justification

Before pursuing this doctoral programme, I was attached to the Faculty of Economic and Business, Universiti Kebangsaan Malaysia (UKM) teaching International Business and Strategic Management to degree students. The Faculty also teaches Entrepreneurship. In addition, I have been involved with entrepreneurial research and training in some small companies in Malaysia. I noted that the subjects and the findings revealed in the textbooks mainly dealt with advanced and developed countries, with not much information on emerging economies or developing countries (see for instance: Daniels & Radebaugh, 2001; Griffin & Pustay, 2005; Wild et al., 2003). I thought that some of this knowledge was not always appropriate
and students and others should have access to a more local perspective of these topics.

After discussion with senior colleagues and my two supervisors, I decided to explore the internationalisation process of SMEs, focusing on the manufacturing sector in Malaysia. I believe I can contribute by adding empirical evidence that will benefit general, academic and commercial purposes. These theoretical, methodological, contextual, empirical and personal bases provide justification for researching into SME Internationalisation in Malaysia.

1.10 Overview of Methodology

The thesis is exploratory nature of research (Yin, 1994) and uses inductive-critical realism paradigm (Miles & Huberman, 1994; Morse & Richards, 2002). It presents data and analysis from semi-structured interviews. The study involved two phases of data collections: Phase 1, a panel of expert interview survey; and Phase II, in-depth interviews with managers and/or owners of the internationalised SMEs. The overview of research methodology is summarised in Figure 1.6.
Phase I data was gathered via long-distance telephone conversations starting in September and going through to October 2005. The expert panel involved 16 Malaysian experts from five categories: academics, policymakers, supporting government agencies, the Chamber of Commerce, and research institutes. The aim was to seek expert opinion on the issue of SME internationalisation in Malaysia. The analysis of experts’ survey allowed the refinement of the interview guide for Phase II.

Phase II was the main data collection method for this study and employed in-depth interviews, conducted in December 2005 through February 2006. A semi-structured interview guide directed the interviews. The respondents involved SMEs from...
various industries within manufacturing sector. The respondents were the managers and/or owners of SME companies in the manufacturing sector. In total, 54 companies classified into seven industries with each interviewee representing each company included in the study. These industries were: 1) Electrical and Electronics, 2) Agro-Manufacturing, 3) Food and Beverages, 4) Rubber and Plastic, 5) Transport and Machinery Equipment, 6) Biotech and Herbal, and 7) Furniture and Wood-based industries.

Many phone calls were placed to selected companies to inquire about interview appointments. Some managers and/or owners were willing to be interviewed; however, others were quite reluctant and requested a consent letter be forwarded to the company before giving participation further consideration. A letter from the researcher outlining the purpose of the study, and support letters from Murdoch Business School and Human Research Ethics Committee of Murdoch University assuring confidentiality were delivered to the respondents.

All the 54 interviews except for four were recorded using MP3 tape and note taking. The researcher self-transcribed the interviews with the help of the notes taken. All the interview scripts were analysed manually and with the qualitative data analysis software, NVivo 7. Analysis techniques utilised qualitative-thematic data analysis and quantitative analysis, such as frequency counts. The research methodology is discussed further in Chapter 3, Research Design and Methodology.
1.11 Operational Definitions

Several important operational definitions are included in this chapter. The definitions are as follows:

**Internationalisation**: “The process through which a firm moves from operating in its domestic market place to international markets by adapting the firms’ operations such as strategy, structure, and resources, to the international environment” (adapted from: Calof et al., 1995; Javalgi, Griffith, & White, 2003; Luostarinen & Welch, 1997; Welch et al., 1988)

**Practiced definition for Malaysian SMEs in this study**: “A firm that employs 10 to 300 full-time employees and has a paid-up capital of less than RM 10 million to RM 49 million” (Hashim et al., 2002, p.10). An SME firm is characterised as: 1) actively managed by its owners; 2) highly personalised; 3) currently engage in international operations; 4) operate manufacturing facilities in Malaysia; and 5) the factory are located within the SMEs industrial zones.

**In-depth Interviewing**: “...an extended face-to-face interchange, between researcher and informant with the purpose of understanding the latter’s experiences and perspectives” (Welch, Marschan-Piekkari, Penttinen, & Tahvanainen, 2002, p.612).

**Panel of Experts**: A panel of Malaysian-based experts included academics, policymakers, supporting government agencies, the Chamber of Commerce and the research institutes. The experts offered opinions on the SME Internationalisation
process. This method is modified from the Delphi technique (Ticehurst & Veal, 2000).

**Managers and/or Owners**: An executive of the Malaysian based internationalised SME firm who has the authority to provide information on the firm internationalisation process, ranging from the owner, founder, chief executive officer (CEO), and key executive, such as Marketing Manager, International Division, etc.

**Embedded Multi Industry-Multi Respondent Design**: Companies included in the study were SMEs from various manufacturing sectors. Several companies represented each sector and their representatives participated in in-depth interviews for the main data collection method.

### 1.12 Structure of the Thesis

The thesis is organised into five chapters. **Chapter One** introduces the research topic background to and justification for the research. The remaining four chapters are organised as follows:

**Chapter Two** presents the literature review on SME Internationalisation by reviewing the main internationalisation theories such as the Uppsala models, Finnish model-POM models, networks theory, resource-based view, international new ventures theories and international entrepreneurship. This chapter also reviews the dimensions of, and driving forces for internationalisation. The chapter draws findings on recent empirical studies, capturing gaps on SME Internationalisation
within newly industrialised countries. Finally, it presents the integrated conceptual framework of the study.

**Chapter Three** highlights the basic understanding of research philosophy such as paradigm, epistemology, ontology, methodology and methods. This chapter justifies why inductive-critical realism paradigm and qualitative research methods are suitable for gathering data of this study. The chapter presents the research design and approach outlining a two-phased interview method. It gives further explanation on the data collection process and the method of analysis conducted on each phase of the study. Chapter Three concludes with the research quality, which explains the triangulation and ethical issues in this study.

**Chapter Four** reports the empirical results of the study. The first section presents the findings of the exploratory experts’ interviews conducted in the effort to seek opinion on the issue of SME Internationalisation in Malaysia resulting in refinement of the interview guide for the in-depth interviews. The second part presents the results of the in-depth interviews using quantitative and qualitative methods. The analyses are mainly based on the themes that arose from the literature and those that emerged from the qualitative analysis using the Nvivo 7 software. The transcriptions were also manually analysed for comparison in reassuring thoroughness and meticulousness of the analysis. The results from qualitative and quantitative analyses were combined and calculated to determine the influential factors affecting the internationalisation process of SMEs in manufacturing industries in Malaysia. Chapter Four presented an integrated Malaysian Model.
Finally, **Chapter Five** goes further into the discussion and interpretations of the findings by comparing the objectives of the study and the research questions. This chapter relates the results to the literature and the contribution this research makes to the existing theories. A general conclusion from the research findings and the key implications of the SME Internationalisation within the Malaysian manufacturing sector is drawn. A number of research limitations are described and some suggestions for further research are indicated.

### 1.13 Chapter Conclusions

This chapter has presented an introductory overview of the thesis. The earlier sections discussed the research background and research setting. This background information established that research evidence about SME Internationalisation in Malaysia is lacking. The importance of SMEs to Malaysia’s economic prosperity as a developing economy, and particularly the manufacturing sectors importance, is also explained. The chapter has also discussed issues and challenges SMEs face when venturing into international markets. The remaining sections explain the research problem, define the research issues, questions, aims and objectives and provide a justification for this research. An overview of the qualitative methodology and operational definitions used and the thesis structure are presented. Collectively these issues provide a foundation of the conceptual framework for the study. The next chapter reviews the literature on internationalisation, identifying the different perspectives, dimensions, driving forces and key drivers.
2.1 Introduction to the Chapter

This section presents the most relevant literature, pertaining to the research problem, “how do Malaysian manufacturing SMEs internationalise and what affects the internationalisation process of various industries in the manufacturing sector in Malaysia”? A review of the literature is important to gain an understanding of the research topic (Hart, 2003) and to identify unexplored issues (Perry, 1994). The literature review fits two purposes; first to learn about the subjects, and second to support the thesis argument (Murray, 2002). An outline of the literature review chapter is illustrated in Figure 2.1.

Chapter Two begins with an introduction to the internationalisation literature and then provides definitions for internationalisation and SMEs. The discussion on previous firms’ internationalisation literature is centred on: 1) theoretical foundations; 2) dimensions of internationalisation; 3) driving forces for internationalisation, and 4) the application of theories, themes and constructs on SME Internationalisation. Based on this literature about firm internationalisation, the significance and limitations of each dimension are reviewed. Research questions are posed and a conceptual framework for this study is developed. The overall purpose of this chapter is to build a deeper understanding of the issue related to SME internationalisation; and the objectives are:
a. To reach a wider understanding to support the thesis arguments;
b. To discuss the significance and limitations of previous empirical findings;
c. To identify any gaps in the literature that fit this research;
d. To formulate research questions; and

e. To develop a conceptual framework for this research.

Figure 2.1: The Outline of the Literature Review Chapter

Source: Developed for this thesis
2.2 Defining Internationalisation

Internationalisation as a term is broadly applied in the literature and the subject has been extensively researched (Chetty, 1999). Internationalisation is not a uniformly defined concept and “…there is a wide range of potential paths any firm might take in internationalisation” (Welch et al., 1988, p.43). Therefore, internationalisation cannot be fully explained by one theory (Coviello et al., 1999), and is better explained with an integrated approach (Chetty & Campbell-Hunt, 2003a). Some of the different definitions of internationalisation are presented in Table 2.1.

Table 2.1: Definitions of Internationalisation

<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Definitions of internationalisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Welch &amp; Luostarinen (1988, p.156)</td>
<td>“a process of increasing involvement in international operations”</td>
</tr>
<tr>
<td>Luostarinen &amp; Welch (1997, p.249)</td>
<td>“a process where firms start by increasing their awareness of the direct and indirect influences of international transactions on their future, before moving on to establish and conduct transactions with other countries”</td>
</tr>
<tr>
<td>Beamish (1990, p.77)</td>
<td>“the process of adapting an exchange transaction to international markets”</td>
</tr>
<tr>
<td>Andersen (1997, p.27-42)</td>
<td>“the process of adapting the firms’ operations (strategy, structure, resources, etc.) to international environment”</td>
</tr>
<tr>
<td>Calof and Beamish (1995, p.116)</td>
<td>“Internationalisation is a gradual process whereby a firm develops a network of global trade relationship”</td>
</tr>
<tr>
<td>Naidu, Cavusgil, Murthy, &amp; Sharkar (1997, p.115)</td>
<td>“a process through which a firm moves from operating in its domestic marketplace to international markets”</td>
</tr>
</tbody>
</table>

Source: Compiled from various authors

Based on these definitions, internationalisation can involve first, both inward and outward activities, second, knowledge and awareness of foreign markets, third,
operational strategy, resources and structure, and fourth, global trade. Beamish’s (1990) definition contains economic and behavioural views of internationalisation. The Calof and Beamish (1995) concept conveys the idea that internationalisation is dynamic and adjustable, whereas Naidu et al. (1997) tend to focus on the role of relationships as being more pertinent when internationalising the firm. Based on the above definitions, this thesis defines internationalisation as:

“The process through which a firm moves from operating in its domestic market place to international markets by adapting the firms’ operations such as strategy, structure, and resources, to the international environment”.

2.3 Approaches to SME Internationalisation

The section discusses the different approaches a company can take when entering international markets. The first model reviewed is the Incremental Internationalisation models and the second is the Rapid Internationalisation models. Within these two, the stage models, such as the Uppsala and the Innovation, and the Rapid models like International New Ventures (INVs) and Born Globals are compared. This is followed by a review of the Networking Approach and Resource-based Views and International Entrepreneurship Perspectives.

2.3.1 Incremental Internationalisation Models

The Incremental Internationalisation model (IIM) draws its foundations from economic theory, organisation theory and marketing theory (Johanson & Vahlne, 1990). Within this perspective, internationalisation processes posit that firms move into foreign markets through gradual development and in distinct stages (Cavusgil,
1980; Johanson et al., 1977). This was first discussed in Penrose’s (1959) Resource-based view which argues that internationalisation is a gradual involvement process and the expansion of firms’ activities to new lines of business and new markets is usually not a continuous uni-directional process.

The early development of firms’ internationalisation theories have focused on foreign direct investments (FDIs) of multinational corporations (MNCs). Aharoni (1966) argued that internationalisation within FDIs is a complex behavioural process because social relationships within and outside the firms affect the decision to export. Another view is from Dunning (1977; 1988), who suggests an Eclectic Paradigm, where a firm only engages in international activities if three conditions are met: Ownership-specific factors of a firm (O); Location-specific factors of a market (L), and there are internalisation advantages of integrating transactions within the firm (I). The Eclectic paradigm is the main reference of internationalisation for MNCs, however, it can extend to explain ‘why’, ‘where’, and ‘how’ other firms such as SMEs internationalise (Javalgi et al., 2003).

The two major models dominating the Incremental Internationalisation perspective (Gankema, Snuif, & Zwart, 2000) are the Uppsala (Johanson et al., 1977; 1990) and the Innovation-Related Internationalisation (Bilkey et al., 1977; Cavusgil, 1980). The Uppsala model comes from Sweden, whilst the Innovation-Related Internationalisation model, formulated in the USA; however both share the same notion that firms engage in international activities in incremental steps and through distinct stages (Hammoudi, 2005). These two models are discussed further in the next section.
2.3.1.1 Uppsala Model

The Uppsala model was initiated in 1970s by Johanson and Wiedersheim-Paul (1975) and since then the model has been further developed (Johanson et al., 1977; 1990). The Uppsala model conceptualises the internationalisation process through four incremental steps, which are: i) no regular export activities; ii) export via independent representatives (agents); iii) establishment of an overseas sales subsidiary; and iv) establishment of an overseas production/manufacturing subsidiary. The Uppsala model formulated by Johanson and Vahlne (1977) is shown in Figure 2.2.

Figure 2.2: The Basic Mechanism of Internationalisation – State and Change Aspects

![Diagram of Internationalisation Process]

Source: Adopted from Johanson and Vahlne (Johanson et al., 1977, p.26)

The model highlights the internationalisation process consists of state and change aspects with four core concepts; these being market knowledge, market commitment, current activities and commitment decisions. These concepts link market commitment decisions to market knowledge and current commitments in the market. It assumes sequential internationalisation is due to uncertainty about operating abroad because of the lack of knowledge, information and experience.
about foreign markets. This indicates that the current state of internationalisation enlightens the further direction of internationalisation.

The model is widely used to describe two patterns of internationalisation. Firstly, the internationalisation process is built up from the four steps mentioned above. Firms make their initial entry into a market using a low risk and low commitment strategy, such as direct exporting, before increasing to a high risk and high commitment strategy via manufacturing subsidiaries and foreign sales. The second pattern is to enter new markets successively and start by going into countries with less psychic distance factors, in terms of language, education, business practices, culture and industrial development differences (Andersen, 1993; Hollensen, 2001; Johanson et al., 1990). This suggests firms enter a particular market close to and similar to the home country before expanding into more distant and dissimilar markets.

However, Johanson and Vahlne (1990) argue exceptions to this incremental model, allow firms to proceed with high commitment entry strategies (such as leapfrogging stages) if they meet the following criteria; They are large in size; They have access to market knowledge when market conditions are stable and homogeneous; Market knowledge can be generalised to similar markets. Other studies focusing on the steps or stages to export also emerged, Innovation-related internationalisation models and other stage models, described in Table 2.2.
Table 2.2: The Stages within Selected Incremental Internationalisation Models

<table>
<thead>
<tr>
<th>Stage</th>
<th>Uppsala Model</th>
<th>Innovation-related Internationalisation Models</th>
<th>Other Selected Staged Models</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>No regular export activities</td>
<td>Non-interested management</td>
<td>Lower stage of export involvement</td>
</tr>
<tr>
<td>2</td>
<td>Export via independent representatives</td>
<td>Filling unsolicited orders</td>
<td>Pre-export stage</td>
</tr>
<tr>
<td>3</td>
<td>Establishment of an overseas sales subsidiary</td>
<td>Exploring active exporting</td>
<td>Experimental involvement</td>
</tr>
<tr>
<td>4</td>
<td>Overseas production / manufacturing units</td>
<td>Experimental exporting to psychologically close countries</td>
<td>Active involvement</td>
</tr>
<tr>
<td>5</td>
<td>Experienced exporter</td>
<td>Commitment involvement</td>
<td>Export acceptance</td>
</tr>
<tr>
<td>6</td>
<td>Exploring exporting to more distant countries</td>
<td>The experienced large exporter</td>
<td></td>
</tr>
</tbody>
</table>

Source: Compilation from various authors
2.3.1.2 Innovation-related Internationalisation Models

Drawing on the behavioural perspective, Innovation-related Internationalisation models posit the concept because the models emphasise innovation (Andersen, 1993). As highlighted in Table 2.2 the models developed by Bilkey and Tesar (1977), Cavusgil (1980), Reid (1981) and Czinkota and Johnston (1981) involve various stages and types of entry mode. Andersen (1993) argues that the models are closely associated with the Uppsala model but all models except for Cavusgil’s (1980) focus on exporting as the mode of entry. The Cavusgil (1980) model conforms to the Uppsala model although it includes other more advanced and complex foreign entry modes. In addition, the model strongly suggests firm specific factors and managerial characteristics are the most influential determinants for a firm’s internationalisation (Cavusgil, 1980).

2.3.1.3 Other Stage Models

Other selected stage models including Moon and Lee (1990), Rao and Naidu (1992), Crick (1995) and Leonidou and Katsikeas (1996) propose less number of stages when compared to the innovation-related internationalisation models. All outline three stages except for Rao and Naidu who propose four stages adding sporadic and regular involvement. Moon and Lee (1990) studied the internationalisation process of the Korean Electronics industry and distinguished three stages; the lower stage, middle stage and higher stages of export involvement. On the other hand, Crick differentiates between non-exporters, passive exporters and active exporters, and Leonidou and Katsikeas (1996) refer to pre-engagement, initial and advanced stages of export in their model.
The determinant of stages range from firm specific factors in terms of capability and internal resources (Dalli, 1994), experiential knowledge, financial strength, marketing know-how, changes of business environment (Erikkson, Johanson, Majkgård, & Sharma, 2000; Haar & Ortiz-Buonafina, 1995) to managerial characteristics (Cavusgil, 1980). Nevertheless, all the models propose a common theme of small firms experiencing incremental approaches in the internationalisation process.

2.3.1.4 Application of Incremental Model to SME Internationalisation

The practical application of the incremental models and in particular the Uppsala model, have been examined in many studies. One prominent example was the review of SME’s internationalisation empirical studies conducted by Coviello and McAuley (1999) between 1989 and 1998. Of the sixteen articles reviewed, thirteen (81%) utilised the stage models in their studies, indicating that the incremental approach was the most commonly applied theoretical framework (within that period). Some studies strongly support the incremental approach (i.e. Bodur & Madsen, 1993; Chetty & Hamilton, 1996) others are fervently opposed to it (i.e. Bell, 1995b; Zafarullah et al., 1998), yet others claim there is mixed support for the model (Gankema, Snuit, & Van Dijken, 1997).

Bell’s (1995b) review of small software firms found total disregard for the stages of internationalisation. Bell found some firms started to export even before selling domestically and thus concluded that industry type and trends were key determinants of the internationalisation process. Coviello et al. (1999) identify Zafarullah et al.’s (1998) study in Pakistan provides the only evidence from a developing country that
networking influenced internationalisation. Even though Gankema et al. (1997) partially support the incremental model, they found that some SMEs leapfrog the stages confirming Hdlund and Kverneland’s (1993) earlier findings. Similarly, a recent large cross sectional study involving 677 firms located in Norway, Denmark and France also found the internationalisation process is not consistent with the premises of the stages models (Moen et al., 2002). Consequently, alternative approaches to SME internationalisation need to be considered.

The authors of the Uppsala model support feedback and critically reviewed and rationalised their model in response to criticism. Although they believe their model is still applicable, they advocate a new approach to meet today’s technology challenges and global competition (Johanson & Vahlne, 2003b). Other patterns, such as rapid models need to be included to explain the internationalisation process, since the incremental models work better with smaller and less experienced firms, with few resources, who operate in unstable market conditions (Vissak, 2004).

2.3.2 Rapid Internationalisation Models

Rapid internationalisation models emerged due to evidence that many firms avoid incremental patterns in their internationalisation process and claims that firms go into international markets right from their birth (Bell, 1995a; McKinsey et al., 1993; Oviatt et al., 1994). Some empirical evidence conforms to this claim which challenges the validity of incremental models, in particular the Uppsala model (Bell et al., 2000; Crick & Jones, 2000). This perspective is associated with many concepts, such as Born Global (Rennie, 1993), International New Ventures (Oviatt et al., 1994), Global Start-ups (McDougall et al., 1994), Born International (Majkgård

The rapid models are identified by the total turnover, speed or pace of internationalisation and the scope. Born Globals, International New Ventures or Global Startups are proposed as having at least 25 percent of foreign sales in their total turnover and operating in international market within 3 years of inception (Jones & Dimitratos, 2004b; Rasmussen, Servais, & Madsen, 2007). Other characteristics include beginning international activities before the start of operations, engaging in international activities when there are opportunities to value-add or relying on formal and informal network entry modes. In addition, firms can be actively engaged in a wide number of regions in the world, disregard physical and cultural distances and have key personnel who possess high levels of international orientation, skills, experience and high levels of confidence (Van der Sijde, Wakkee, & Kirwan, 2004).

Despite the many concepts associated with the Rapid Internationalisation models the most prominent ones are Born Globals and International New Ventures (Hammoudi, 2005). These two form the core concepts of the Rapid Internationalisation models and are discussed next.

**2.3.2.1 International New Ventures**

An International New Venture (INV) is defined “as 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” (Oviatt et al., 1994, p.49).

The INV model integrates transaction cost analysis, market imperfections and internalisation theories and this model, shown in Figure 2.3 consists of four necessary elements for sustainable new ventures.

**Figure 2.3: Elements for Sustainable International New Ventures**

- **Element 1**: ‘Internalisation of some transaction’ which describes how the firm internalises some transactions due to lack of resources;
- **Element 2**: ‘Alternative governance structures’ where the new ventures are distinguished from established firms because abundant resources are available.

*Source: Adapted from Oviatt & McDougall(1994, p. 54)*
In monitoring vital resources, the firms may go for hybrid structures (licensing, franchising or networking) rather than taking an internal handling approach;

- Element 3: ‘Foreign location advantage’ refers to the cross border movement of the firms’ economic transaction where the INVs find advantages to relocate transferable resources. This moves the INVs one-step higher from new ventures. At this stage, the INVs are perceived to possess unique resources, providing a competitive advantage to operating in foreign markets;

- Element 4: ‘Unique resources’ such as excellent and diverse knowledge are created. This creates sustainable competitive advantage for becoming ‘sustainable international new ventures’.

According to Oviatt and McDougall (1994), this model has three focused issues: 1) ‘how’, refers to the coordination of value chain activities; 2) ‘where’, concerns the number of countries involved; and 3) ‘when’, implies that age or timing of overseas’ ventures is prominent for firms’ internationalisation. Significantly, the timing and speed into foreign market entry are the distinct features between the incremental and rapid internationalisation models (Antoncic & Hisrich, 2000). Zahra (2005) agrees and suggests that “age at internationalisation is assumed to have important implications for companies’ successful expansion, survival and performance” (p. 21). Nonetheless, Zahra (2005) raises concern over the focus on ‘age’. Zahra also (2005) argues that it is difficult to determine the exact launch time of firms, rather it is the firms’ goals, resources and connection with others that are essential in determining the time to internationalise. He argues that there are cases of spin off firms due to an oversupply of resources of parent companies. In contrast, Hamel and Prahalad (1994) advocate that the INVs strength depends on the company’s
creativity and how it manipulates its way and resources into an international arena. This argument on firm resources and creativity focuses on the issue of competitive advantage, is the basis of INV theory (Oviatt et al., 1994).

Since the INV firms use fast track paths to internationalisation they can bypass certain stages, so higher order entry modes are more likely to be employed. This contradicts incrementalisation, which is irrelevant for explaining why firms internationalise at high speeds, via high entry modes. This is why the INVs theory is more applicable for fast growing technology-based firms (Autio & Sapienza, 2000a; Crick & Spence, 2005) and knowledge-based SMEs (McEvily & Chakravarthy, 2002; Nummela, Saarenketo, & Puimalainen, 2005). The technology and knowledge-based firms also help explain the nature of Born Global firms.

2.3.2.2 Born Global

Gabrielsson (2005) posits that Born Globals are similar to International New Ventures because they emerge due to cutting edge technology and access to a borderless marketplace. The Born Global firms start internationalising immediately; sometimes circumventing domestic operations or working concurrently with domestic operations, or directly after start-up (Bell et al., 2000; Luostarinen & Gabrielsson, 2004). The emergence of Born Global firms is due to the global economy, where to survive against the forces of globalisation, SMEs are advised to seek for overseas’ markets (Jones et al., 2004b).

Beside globalisation issues, such as the huge demand for globally customised products, growth of international value-chains and global networks and MNCs
seeking for global outsourcing, advances in technologies have contributed to the emergence of born global firms. Technology has speed up communication, transportation, production and process, access to knowledgeable human capital and international institutions offering financial, technology, tools, knowledge and Research and Development assistance (Knight et al., 1996; Madsen, Rasmussen, & Servais, 1999). According to Madsen and Servais (1997) successful born globals depend on experience, ambition and motivation of the founders, corporate governance, the structure of the organisation, market internationalisation, technology and the environment. Although, the born global firms may have limited resources and little experience in international business, they usually offer niche products targeted at global markets and possess entrepreneurial knowledge-intensive skills which enables them to offer value-added products and services (Gabrielsson & Al-Obaidi, 2004).

2.3.2.3 Incremental versus Rapid Internationalisation Models

According to Bell and McNaughton (2000), the firm’s internationalisation is mainly distinguished by being a traditional firm utilising an incremental approach to internationalisation or a born global firm that has high value-added products and services. The distinctions between these two pathways have six distinct features: 1) motivation to internationalise, 2) international objectives, 3) international expansion patterns, 4) pace of internationalisation, 5) method of distribution, and 6) international strategies, as shown in Table 2.3.
<table>
<thead>
<tr>
<th>Feature</th>
<th>Traditional Firms</th>
<th>Born Global Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motivation to Internationalise</td>
<td>● Reactive - Adverse home market conditions</td>
<td>● Proactive - Global ‘niche’ markets</td>
</tr>
<tr>
<td></td>
<td>● Unsolicited/enquiries orders</td>
<td>● Committed management</td>
</tr>
<tr>
<td></td>
<td>● Reluctant Management</td>
<td>● International from inception</td>
</tr>
<tr>
<td></td>
<td></td>
<td>● Active search</td>
</tr>
<tr>
<td>International Objectives</td>
<td>● Firm survival/growth</td>
<td>● Competitive advantage;</td>
</tr>
<tr>
<td></td>
<td>● Increasing sales volume</td>
<td>● First-mover advantage;</td>
</tr>
<tr>
<td></td>
<td>● Gaining market share</td>
<td>● Locking-in customers</td>
</tr>
<tr>
<td></td>
<td>● Extending product life-cycle born again global</td>
<td>● Protecting and exploiting proprietary knowledge</td>
</tr>
<tr>
<td>International Expansion Patterns</td>
<td>● Incremental</td>
<td>● Concurrent</td>
</tr>
<tr>
<td></td>
<td>● Domestic expansion first</td>
<td>● Near-simultaneous domestic and export expansion</td>
</tr>
<tr>
<td></td>
<td>● Focus on ‘psychic’ markets</td>
<td>● Focus on lead markets</td>
</tr>
<tr>
<td></td>
<td>● Low-tech/ less sophisticated markets targeted</td>
<td>● Evidence of client followership</td>
</tr>
<tr>
<td></td>
<td>● Limited evidence of networks</td>
<td>● Strong evidence of networks</td>
</tr>
<tr>
<td>Pace or Pattern of Internationalisation</td>
<td>● Gradual/Slow</td>
<td>● Rapid/Speed</td>
</tr>
<tr>
<td></td>
<td>● small number of export markets</td>
<td>● large number of export markets</td>
</tr>
<tr>
<td></td>
<td>● Single market at a time</td>
<td>● Many markets at once</td>
</tr>
<tr>
<td></td>
<td>● Adaptation of existing offering</td>
<td>● Global new product development</td>
</tr>
<tr>
<td>Method of Distribution/ Entry Modes</td>
<td>● Conventional</td>
<td>● Flexible and network</td>
</tr>
<tr>
<td></td>
<td>● Use of agents/distributors or wholesalers</td>
<td>● Use of agents or distributors</td>
</tr>
<tr>
<td></td>
<td>● Direct to customers</td>
<td>● Evidence of integration with client’s channels; licensing, joint ventures, overseas production.</td>
</tr>
<tr>
<td>International Strategies</td>
<td>● Ad-hoc and opportunistic</td>
<td>● Structured</td>
</tr>
<tr>
<td></td>
<td>● Evidence of continued reactive behavior to export opportunities</td>
<td>● Evidence of a planned approach to international expansion</td>
</tr>
<tr>
<td></td>
<td>● Atomistic expansion, with unrelated new customers/markets</td>
<td>● Expansion of international networks</td>
</tr>
</tbody>
</table>

*Source: Adapted from Bell and McNaughton (2000, p.179)*

Consequently, the significant differences between the incremental and rapid internationalisation models enable this current study to identify the pattern of SME internationalisation in Malaysia. The rise of Born Global SMEs challenges the traditional internationalisation theories (Knight et al., 1996) and also affects the public policy in many countries (Bell et al., 2000). Therefore, Bell and McNaughton
(2000) suggest government involvement in international trade policy and industrialisation in relation to SMEs be aimed toward value-added products/services and a knowledge-based economy. The government of Malaysia has emphasised this issue in the Ninth Malaysia Plan (2006-2010) and Third Industrial Master Plan (2006-2020).

The SME sector in Malaysia is being channeled toward global value chains, but the focus is on building technology intensive firms so that the country’s industrial development can be strengthened (IMP3 MITI, 2006; Ninth Malaysia Plan, 2006). Based on the SME Four Phases Development discussed in Chapter 1, Malaysian SMEs are more likely to follow the traditional pattern. They may internationalise faster as seen in Andersson, Eriksson, and Lundmark’s study on the Malaysian furniture industry (2006), or they may rely on the networking approach to assist them in international ventures (Zain et al., 2006; Zizah et al., 2007a). Therefore, another pattern of internationalisation, such as network relationships (Madsen et al., 1997) is discussed.

2.3.3 Network Approach to Internationalisation

According to Chetty and Blakenburg (2000, p.79) a network refers to “a set of two or more connected business relationships”. The network can be in the form of collaborative relationships with competitors (Bernal, Burr, & Johnsen, 2002) or a voluntary arrangement between firms (Fuller-Love & Thomas, 2004). What is recognised is that the firm internationalisation involves others and is absolutely not a one man effort (Mtigwe, 2006).
A network usually consists of actors, activities and resources (Håkansson, 1982; Johnsen & Johnsen, 1999). The actors can be individuals, organisations and government agencies, whilst the resources can be physical, human and financial assets. The activities then take place when the actors manipulate the resources by combining, developing, exchanging or creating resources. Consequently, a firm develops networks of relationships by exchanging or sharing activities and resources with other firms through its actors, thus creating bonds with others (Johnsen et al., 1999). This fits Johanson and Vahlne (1990) suggestion that business entities are part of a network which involves many players such as customers, suppliers, competitors, government, distributors, bankers, agents, consultants, families, or any other party connected to internationalising the firm.

2.3.3.1 Type of Firm Internationalisation and Network Approach

Applying similar network variables (actor bonds, shared resources and integrated actions), Johanson and Mattson (1988) proposed an industrial network model shown in Figure 2.4.

![Figure 2.4: Internationalisation and the Network Approach](image)

Source: Johanson and Mattsson, 1988
This model is convenient for explaining ‘why’ and ‘how’ firms internationalise. Johanson et al. (1988) argue that firms use foreign network partners in three ways, by extending into foreign markets through relationship with new or existing foreign network partners, market penetration by expanding resource commitments in markets where the firm has a presence, and through integration by co-coordinating its international network activities spread around a number of countries. Johanson et al. (1988) describe four different stages in the development of the firm’s internationalisation process related to the market environment; these are, the early starter, the lonely international, the late starter, and the international among others, summarised below.

- The **early starter** has relatively low and insignificant networking relationship with foreign firms and foreign markets. This type of firm has scarce knowledge and limited exposure about foreign markets, which make it difficult to move from domestic markets to international operations since the operation is highly localised.

- The **lonely international** is where the firm has some links in foreign countries, so it has acquired knowledge on foreign cultures and business conducts. This firm has some degree of internationalisation, which can provide with a competitive advantage and enable extended networking with other players and competitors.

- The **late starter** is a vulnerable situation for the firm. Even though the company has developed strong networks with foreign customers and suppliers and has experience in foreign ventures, the firm itself lacks market knowledge compared to competitors. This puts the firm in a risky position and causes a
comparative disadvantage, so that the firm may not be able to compete with the competitors’ strategies.

- The international among others positions the firm within a highly internationalised environment. The firm stands together with other international competitors so is alert to changes. Therefore, network positions are pivotal for success. In this stage, the firm usually has a commitment to foreign entry modes, such as joint ventures, acquisitions and mergers. This also explains how networking creates growth opportunities, international relationships and the internationalisation of smaller firms (Bell et al., 2000).

### 2.3.3.2 Investigating Internationalisation via Network Approach

Different approaches have been taken to investigate networking, including; comparing companies using networking to internationalise (Ford, 2002) and examining networking links with governments, supporting agencies, distributors, customers and other firms (Chetty & Blankenburg, 2007; Welch & Welch, 1998). Other approaches included networking impact on faster speed of firms’ internationalisation (Bell et al., 2000), networking and international competitors (de Wit & Meyer, 1998), and networks and the performance of small manufacturing firms (Wincent, 2005). Also included is the role of key persons responsible for initiating the firm internationalisation and their existing social networks (Ellis & Pecotich, 2001); and the networks influence on SME expansion into newly industrialised or developing countries or emerging markets (Ghauri et al., 2003; Kuada et al., 2000; Zafarullah et al., 1998; Zizah et al., 2007a).
Being connected with others allows SMEs to gain knowledge on foreign markets and access to required resources and capabilities (Johanson et al., 1988). Knowledge about foreign marketplaces creates opportunities for the firm to internationalise (Liesch & Knight, 1999). As the learning curve on international opportunities increases, firms are triggered and motivated to internationalise (Korhonen, Luostarinen, & Welch, 1995). Knowledge of a foreign market allows the firm to formulate strategic plans to accelerate the internationalisation process (Moen et al., 2002) and ensure survival in long run (Sharma, 1993). Firms not established as international players utilise networks to build international contacts and find suitable agents (Johanson et al., 1988) and this affects their market selection, foreign entry mode choice and product development (Coviello et al., 1995). Where firms access global networking, local products can be globally integrated through ‘brand affiliation’ with global branding, allowing the firms to gain familiarity with the global business environment and awareness of the international standard, requirement and quality (Yakhlef & Maubourguet, 2004).

2.3.3.3 Application of Network Approach in Developing Countries

Despite extant literature on networking and SME internationalisation, evidence from developing countries or NICs is still lacking (Ghauri et al., 2003). Zeng and Williamson (2003) argue that many developing countries, especially in Asia seek sustainable networks to help them become globally competitive firms. Asian firms are recognised for their networking (Redding, 1995) and they actively seek ‘external relationships’ as a source of new information and expertise to enhance their international competitiveness (Zhou & Xin, 2003).
There is also an argument that many small multinational enterprises (MNEs) rely on ethnic networks to internationalise and this is common for Chinese ethnic groups (Chen, 2003; Yeung, 2004b). The Chinese from many Asian countries such as Taiwan, Hong Kong, Singapore, Malaysia and the Republic of China tend to cultivate personal relationships, known as *quanxi*. *Quanxi* is believed to be the key to successful entrepreneurship and SME development for Chinese businesses as it allows firms and their owners to build social capital for business creation and survival (Li & Matlay, 2006). *Quanxi* is built through family ties, personal connection of the owners, including connection with selected government-linked companies (GLCs), trust and cooperative strategies (Sim & Pandian, 2003). This happens because:

> “Their similar cultural attitudes and heritage fostered the development of trust and cooperative behaviour. These ethnic networks and ties provide knowledge and access to local markets, distribution systems, as well as potential business partners and associates and even financing” (Yeung, 2004b, p.87)

Despite this, there are reservations about the role of ethnic networks in international expansion. Ethnic networks can limit the firms’ growth and the assimilation of other social cultures (Yeung, 2004b). For example, Chinese firms have a tendency to deal with other Chinese. Although, ethnic networks are observed in studies involving small Asian-Chinese owned and managed enterprises, they are not detected in the western empirical evidence. This designates a divergence in the issue of SME internationalisation between developed and some emerging markets.
Networks play an important role in internationalising Malaysian SMEs. Networks with the Malaysian government and its supporting SME agencies influence the decision to go international (Zizah et al., 2007a) as they create awareness for international opportunities (Mahajar et al., 2006). Malaysian furniture firms have been able to speed up the process of internationalising through networking, assuming ‘born global’ models for foreign market entry (Andersson et al., 2006). The network relationships not only trigger and motivate internationalisation, they influence the choice of markets, and entry modes, help gain initial credibility, allow access to additional relationships and established channels, lower the costs and risks, and influence the pace and patterns (Zain et al., 2006). The following section discusses the resource-based view, which focuses on internal issues involving the firms’ resources and capabilities in competing at the international level.

2.3.4 Resource-based View

The resource-based view (RBV) initiated by Penrose (1959) has received extensive interest in the SMEs’ internationalisation literature (Fillis, 2001; Prahalad & Hamel, 1990). The RBV has two main principles; resources are not homogeneously spread across firms and resources cannot be transferred between firms without incurring costs (Shepherd et al., 2005). Firm resources are defined as “all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable to conceive of and implement strategies that improve its efficiency and effectiveness” (Barney, 1991, p.101).

Amit and Schoemaker (1993) argue that the superior performance of a firm is the consequence of having rare, imperfectly imitable and non-substitutable resources
and capabilities (Barney, 1991). The tangible resources of a firm are observed through its financial strengths, facilities, employees, and other visible possessions, while the capabilities are the intangibles that may be perceived from work ethics, cultures, networking with others for information and business support, an international entrepreneurial orientation, and the level of knowledge and learning within the firm (Westhead, Wright, & Ucbasaran, 2001). These resources and capabilities are unique, making them difficult for competitors to reproduce, which gives a competitive advantage in the international arena (Bell, Loane, Njis, Nijs, & Phillips, 2007).

It is debatable whether unique resource can drive SMEs to perform at international levels. The founders or key managers of SMEs who possess individual-specific resources, for instance, entrepreneurial orientation capabilities, specific knowledge and social bonds are important drivers for international success (Johanson et al., 1988; Knight, 2001). The high international orientation of decision-makers, their specific skills and knowledge and ability to network with others have helped Biotech SME firms from the UK, Germany and Netherlands to make their way successfully into overseas ventures (Bell et al., 2007). Knowledge, entrenched within the human resources is part of the source of competitive advantage (Barney, 1991; Westhead et al., 2001), thus the greater a firm’s knowledge power, the earlier the internationalisation process occurs (Autio, Sapienza, & Almeida, 2000b). Consequently, if knowledge (that is valuable, rare, and difficult to imitate) is controlled and enhanced, the firm has an advantage for being competitive in international markets (Bell et al., 2007).
Applying the Resource-based view concept of being valuable, rare, imperfectly imitable and non-substitutable to 96 international joint ventures (IJVs) in Malaysia, Ainuddin (2000) identified that resource attributes, such as technical expertise, local business networks, marketing skills and product reputation significantly increased a firm’s performance at the international level. Despite the study examining various foreign IJVs operating in Malaysia, not the local small IJV firms operating abroad, the findings provides insights into internationalisation issues in Malaysia.

The Resource-based view is linked to other internationalisation perspectives because it “allows one to see the possible linkages between the learning aspect of gradual approaches, networks, and ownership aspect of OLI paradigm” (Roolaht, 2002, p.38). This indicates that the RBV is applicable to the incremental approach, networks, and the rapid approach to internationalisation. For instance, the RBV was utilised in developing and modifying the Uppsala model (Johanson & Vahlne, 2003a; 1977). The RBV theories contribute to the acceleration of SME expansion and advance into the rapid internationalisation perspective (Chetty & Wilson, 2003b; McDougall et al., 1994). Some resources, such as interpersonal relations also enhance networks and thus assist SMEs in dealing with setbacks and challenges when internationalising their firms (Shepherd et al., 2005). Therefore, in addition to the previous internationalisation perspectives (the Incremental, Rapid and Network), the RBV also contributes to the theoretical foundation of this study. The next and final discussion on approaches to internationalisation is the latest perspective, international entrepreneurship theory.
2.3.5 International Entrepreneurship Perspective

International Entrepreneurship (IE) is described as “the process of creatively discovering and exploiting opportunities that lie outside a firm’s domestic markets in the pursuit of competitive advantage” (Zahra et al., 2002, p.265). The underlying concept of IE is to uncover the firms internationalisation behaviour, without regard to age or size (Dimitratos et al., 2003; Millman et al., 2007). Zahra and George (2002) claim previous studies on internationalisation have concentrated on: the extent and degree of internationalisation (the percentage of sales a firm generates from foreign markets); the speed of internationalisation (the first time a firm commits to foreign market entry from the date of establishment); and the scope of internationalisation (the number of foreign markets entered). However, other factors, such as the internal factors and external factors, ability to recognise opportunities, capacity to create competitive advantages and strategic factors have been neglected (Zahra et al., 2002). Therefore, Zahra et al. developed an integrated model of IE based on the environment, organisation and strategic factors, as illustrated in Figure 2.5.
Figure 2.5: Integrated Model of International Entrepreneurship

The integrated model demonstrates the moderating effect of the extent, speed and scope of IE towards creating competitive advantage. This model shows that many interrelated factors contribute to SME international ventures, although the model does neglect networking.

Jones and Dimitratos (2004b) argue that two aspects influence the IE perspective: (1) the network relationship, and (2) advances in the internet, communication and technology (ICT). The network relations can emerge through informal and formal interactions between the firm’s human capital (Boojihawon, 2004). This suggests that knowledge, information and even equipment can be shared and transferred (Shepherd et al., 2005). The IE view suggests international opportunities are exploited through adoption of internet and ICTs (Georganas, 2004). This means marketing and communication channels switch from contact through people to
contact via the internet. This form of communication is unique and can support ‘many-to-many communication’ at once, with broad coverage (Prashantham & Berry, 2004a).

On the other hand, Lumpkin and Dess (1996) suggest that founders or key managers need to possess international entrepreneurial values; they need to be proactive, risk-seeking and innovative, to facilitate penetration into overseas markets. Kumar and Liu’s (2005) findings support that network relationships, advanced technology and top management values, all contribute to entrepreneurial cultures. According to Dimitratos and Plakoyiannaki (2003) entrepreneurial cultures involve international orientations toward market, learning, innovation propensity, risk attitudes, networking and motivation. The international entrepreneurial culture can shape the way founders or key personnel and the organisation see foreign markets, understand foreign customers and prepare for international competition (Dimitratos et al., 2003). Zahra (2005) agrees that these orientations have substantial roles in stimulating and exploiting international entrepreneurial activities.

The international entrepreneurial values and cultures do not stand-alone. According to various studies they are influenced by interrelated factors, such as firms, founders or entrepreneurs, the environment, market (Etemad, 2004b), business processes and practices, decision-making style (Evangelista, 2005), strategic orientation (Wiklund & Shepherd, 2003) and strategic growth (Dimitratos & Jones, 2005). Evangelista (2005) argues that the founders’ technical background, industry experiences, international experience, connections, entrepreneurial inclination and entrepreneurial spirit are essential for creating IE firms. The distinctive characteristics of founders
or key managers are embedded in the organisation's culture, and this helps create international entrepreneurial values. Collectively, the organisation is channeled toward gathering, interpreting, and disseminating intelligence for the purpose of foreign market operations.

The IE firms can capture international markets by developing new goods and services (Kumar et al., 2005) and by being the pioneer to develop and launch the products (Evangelista, 2005). But, understanding the environment, which includes the domestic and foreign market conditions such as technology, related industries, government, and other supporting institutions, trade associations, and educational institutions, can influence the pace of an SME becoming an international player (Etemad & Chu, 2004).

Although the IE perspective is very recent, Mtigwe (2006) advocates that this view is consolidated by many theories and models within International Business and Entrepreneurship, including the ones previously discussed in this section. There is some evidence of IE firms operating in Malaysia; they are small in size, entrepreneurial in nature, and operating in foreign markets at an early age of the firms’ establishment. Therefore, it is relevant to utilize the international entrepreneurship perspective in this study. The following section discusses the dimensions of SME internationalisation.
2.4 Dimensions, Entry Mode, and Market Selections

This section reviews the dimensions of internationalisation used to measure the development of international activities of Malaysian SMEs and describes the patterns that influence these measures. After explaining the various models this section focuses on the dimension models by Welch and Luostarinen (1988), Daniels and Radebough (2001) and Chetty (1999).

2.4.1 Dimensions of Internationalisation

The earliest model of dimensions of internationalisation evolved in Finland as ‘The Finnish-POM Model’ (Luostarinen, 1979; Luostarinen et al., 1997; Welch et al., 1988). The POM model distinguishes three dimensions of internationalisation. First is Product (P), which describes ‘what’ in terms of physical goods, services, expertise and systems. Second is Operation mode (O) which relates to ‘how’ firms operate, either through agents, subsidiaries, licensing and management contracts. Third is Market (M), which describes ‘where’ in relation to the selection of markets and takes into account political, cultural and physical differences. The ‘organisational capacity’ dimension however was later added to describe organisational structure, finance and personnel (Welch et al., 1988). However, Chetty (1999) comments this dimension is shallow and lacks an explanation of the variables (organisational structure, finance and personnel).

Chetty (1999) claims that other important dimensions could be more effective to assess internationalisation. Subsequently, firm and decision-maker characteristics and firm competencies replaced the organisational capacity variables. The revised model included organisational structure and finance in the firm characteristics, while
personnel are included in the decision-maker characteristics. Chetty argues this replacement was timely and relevant, as the variables play an essential role in internationalising a firm and help determine the firm’s approach. Moreover, firm competencies and decision-maker characteristics aid the ability to gather and exploit the information to expedite internationalisation process (Mtigwe, 2005; Styles & Amber, 1994). In this form, the POM model contains six dimensions as is depicted in Figure 2.6.

**Figure 2.6: The POM Model: The Six Dimensions of Internationalisation**

<table>
<thead>
<tr>
<th>Foreign Operation methods (HOW)</th>
<th>Markets (WHERE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agents, subsidiaries, licensing, franchising, management contracts…</td>
<td>Political / cultural / Physical distance differences…</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sales Objects (WHAT)</th>
<th>Firm Characteristics</th>
<th>Firm Competencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>goods, services, know-how, systems…</td>
<td>Domestic market situation, organisation structure, finances (In Welch et al., 1988: <em>Organisational Structure</em> Export department, international division…)</td>
<td>Technology, market knowledge, planning (In Welch et al., 1988: <em>Personnel</em> International skills and experience; training…)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Organisational Capacity</th>
<th>Decision Maker Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age, education, work experience, profit perception (In Welch et al., 1988: <em>Finance</em>)</td>
<td></td>
</tr>
</tbody>
</table>

Source: Adapted from Chetty (1999, p.124 & 130), based on Welch and Luostarinen (Welch et al., 1988) and Chetty (1999).

The POM model supports the Uppsala model’s incremental perspective that firms start internationalisation into culturally similar countries. It shows that at the beginning, firms are inclined to penetrate countries that have similar physical,
political, cultural, and probably economic and social conditions. As they gain confidence, the firms might seek for other distant markets. This notion of ‘psychic distance’ has an impact on the firms’ internationalisation process (Chetty, 1999; Vahlne & Johanson, 2002). The models also concur that firms may choose different operation modes, such as agents, subsidiaries, licensing, franchising, management contracts for penetrating into foreign markets, rather than only on exporting. The ‘sales objects’ have a varied product range, from goods to services, to know-how, and to systems. Thus, combination of commitment, capacity, diverse operational methods, products and markets allow the firms to leapfrog certain stages and accelerate the internationalisation process (Chetty & Campell-Hunt, 2004; Luostarinen et al., 1997).

Daniels and Radebaugh (2001) propose firms follow expansion patterns to gradually internationalise. Five patterns can be involved. First is the firms’ attitude towards internationalisation, which ranges from defensive to offensive. Second is internal to external handling of foreign operations. Third is the foreign entry mode, ranging from a low risk, low commitment entry mode (i.e. exporting) towards a high risk, high commitment entry mode (i.e. fully owned subsidiaries). Fourth is the number of foreign markets, ranging from one to many. The fifth is the market similarity, ranging from geographically close and similar cultures to distant countries with dissimilar environments.

Similar to previously discussed models (the POM, the Uppsala and stages models), Daniel and Radebaugh’s model supports the psychic distance, and suggests companies tend to expand to foreign locations that are geographically and culturally
close. The firms commit to international activities based on their capabilities, and assumptions that the risk is greater in unfamiliar environments. Thus, they choose less committed entry practices for entering international markets. This means the intermediaries are assigned to handle the foreign operation until the firms gain the familiarity and knowledge to do it themselves (Daniels et al., 2001).

The POM models (Chetty, 1999; Welch et al., 1988) and the Five Patterns of Internationalisation model (Daniels et al., 2001) imply that internationalisation is assessable from multidimensional concepts. Internationalisation is not one dimensional approach (Luostarinen, 1994) rather it requires an integrated perspective (Chetty et al., 2003a). Unfortunately, both models have been given little attention, despite providing in-depth dimensions lacking in the Uppsala model (Roolaht, 2002). The Daniel and Radebough model probably receives very little interest from researchers as it seems that only one study has adopted this model for analysis (Gemser et al., 2004). Based on the above dimensions, the next section discusses the international market entry modes and factors influencing the selection of market.

2.4.2 International Market Entry versus Market Selection

International market entry mode is as “an institutional arrangement that makes possible the entry of a company’s products, technologies, human skills, management, or other resources into a foreign country” (Root, 1994, p.24). Firms utilise a broad range of operational modes during their internationalisation process, although many fit the traditional classifications of exporting, contracting, and direct foreign investments (Wild et al., 2003). Luostarinen (1979) argues that the traditional foreign entry classifications are inappropriate to explain SME internationalisation
operations, since size affects other variables. Several studies on the internationalisation process of Finnish SMEs have classified the internationalisation process according to outward, inward, and cooperative modes, as illustrated in Table 2.4:

Table 2.4: International Operation Modes

<table>
<thead>
<tr>
<th>Outward Modes</th>
<th>Inward Modes</th>
<th>Cooperation Modes</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Export: indirect, direct, own/self export</td>
<td>• Export: indirect, direct, own/self export</td>
<td>• Cooperation on manufacturing</td>
</tr>
<tr>
<td>• Licensing, selling</td>
<td>• Licensing, selling</td>
<td>• Cooperation on purchasing</td>
</tr>
<tr>
<td>• Know-how agreement</td>
<td>• Know-how agreement</td>
<td>• Cooperation on R&amp;D</td>
</tr>
<tr>
<td>• Franchising</td>
<td>• Franchising</td>
<td></td>
</tr>
<tr>
<td>• Subcontracting</td>
<td>• Subcontracting</td>
<td></td>
</tr>
<tr>
<td>• Contract manufacturing</td>
<td>• Contract manufacturing</td>
<td></td>
</tr>
<tr>
<td>• Project exporting</td>
<td>• Project exporting</td>
<td></td>
</tr>
<tr>
<td>• Joint/mixed ventures</td>
<td>• Joint/mixed ventures</td>
<td></td>
</tr>
</tbody>
</table>

NOTE: This thesis concentrates on the outward mode

Source: Luostarinen (1994); Luostarinen et al.,(1997)

2.4.2.1 Exporting and Subcontracting Modes

Exporting is usually the initial stage of SME internationalisation (Hyvärinen, 1994; Johanson et al., 1975). The exporting process begins by manufacturing products in a domestic market or a third country, then transferring products either directly, via agents or export management companies, or indirectly through sales representatives, distributors, or sales organisations (Root, 1994; Wild et al., 2003). Another mode is through ‘cooperative exports’, which involve collaborative arrangements with other companies, usually SMEs, to share costs and reduce risks (Hollensen, 2001).

Although exporting has low risks and requires a minimal commitment of resources, it can suffer because of low control over the foreign operations (Root, 1994). It can
be a high risk of conflict in the relationship, particularly if firm relinquishes control to overseas partners (Hollensen, 2001). For instance, an SME might be reluctant to describe details of the process of manufacturing to avoid product imitation. Nevertheless, a key significance of exporting is the international learning experience (Root, 1994). An SME could gain initial experience by learning the policies and procedures for international trade, opening up its management mindset and way of thinking, and most importantly, by creating opportunities to connect with others for further involvement in internationalisation.

Besides exporting, ‘international subcontracting’ (Hovi, 1994) is a significant foreign entry mode practiced by SMEs from developing countries (Chirathivat & Chantrasawang, 2002; Sieh, 2000). This mode is favoured by SME contractors because barriers, such as government policies, high transaction costs, lack of information, lack of suitable products, lack of foreign market connections and higher risks can be avoided (Hovi, 1994). Although subcontracting is practiced differently in various industries and countries, it allows foreign direct investments (FDIs) to take advantage of global outsourcing and supply-chain operations through small local companies (Culpan, 2002). This practice enhances competitive advantages and is an opportunity for SMEs to aggressively participate in international markets (Ghauri et al., 2003).

Sixty percent of SMEs in Asian industrialised countries are involved in international subcontracting via their countries industrial linkages and subcontracting relations (Moha-Asri et al., 2002). Japan, Taiwan, Hong Kong, Singapore, and Korea utilise subcontracting as means of internationalisation (Yeung, 2002). Within the emerging
Asian markets, such as Malaysia, Thailand, the Philippines and Indonesia, SME development in the manufacturing sector is also closely related to international subcontracting (Harvie et al., 2002; Sieh, 2000).

“There is an intimate subcontracting relationship between large and small enterprises that tend to promote intense inter-firm flows of information, technological know-how. And management skill, contributing to industrial dynamism and global competitiveness”. (Yeung, 2002, p.66)

In the Malaysian context, SME subcontracting is implemented through the Industrial Linkage Programme (ILP), the Global Supplier Programme (GSP), and the vendor system (SMIDEC, 2002). These have led to Malaysian SMEs participating in the subcontracting export networks to improve their performance and increase their productivity (Rasiah, 1999). The financial, quality and technical supports from parent companies (Moh-

2.4.3 Factors Influencing Entry Mode and Market Selection

According to Root (1994), internal factors like products, resources and commitment are important to determine the foreign entry mode, if the products are highly differentiated and export entry mode is favoured, but if the products are technology-intensive then contractual entry, such as with licensing is preferred. Having varied resources gives a firm more entry options ranging from low to high commitment
modes. External forces, like the home country and foreign market characteristics, environmental and production factors also affect the entry mode chosen for targeted countries. Both internal and external forces influence the choice of foreign market selection and entry mode, and Koch (2001) argues that these forces can be mixed and are interrelated. Koch proposes a holistic model for ‘market entry and market selection’ known as the MEMS model, as shown in Table 2.5.

### Table 2.5: The Forces and Factors Influencing Market and Entry Mode Selection

<table>
<thead>
<tr>
<th>Forces</th>
<th>Factors for Market Selection</th>
<th>Factors for Entry Mode Selection</th>
</tr>
</thead>
</table>
| **Internal** | • Stage of internationalisation  
  • Company strategic orientation  
  • Company strategic objectives  
  • Overseas market selection experience  
  • Company international competitiveness  
  • Calculation methods applied | • Company size / resources  
  • Market locus of control  
  • Experiencing in using MEMS  
  • Management risk attitudes  
  • Market share targets  
  • Calculation methods applied  
  • Profit targets |
| **External** | • Country market potential  
  • Competitive significance of the market  
  • Anticipated overseas market risks | • Characteristics of overseas country  
  • Business environment  
  • Industry feasibility/viability of MEMS  
  • Popularity of individual MEMS in the overseas market  
  • Market growth rate  
  • Image support requirements  
  • Global management efficiency requirements |
| **Mixed** | • Own / Accessible resources  
  • Networking  
  • Similarity / Proximity of overseas market  
  • Market portfolio congruity  
  • Expansion sequence optimisation | • Competitiveness, capabilities and skills required/available for each MEMS  
  • Sufficiency and reliability of information inputs |

*Source: Based on Koch’s MEMS model (2001, p. 352 & 353 in Figures 1 & 2)*
The model indicates that internal factors, such as the strategic orientation and objectives, strongly influence the stages of internationalisation and these are linked to external factors like market competitiveness and probable risk. External factors, like the host countries business environment and the feasibility of certain industries are affected by the companies experience and measures to handle risks. When deciding which markets to enter, both external and internal factors rely on sufficient and reliable information.

This table concludes that interrelated forces affect market and entry mode selection, and demonstrates the complexity and dynamism of internationalisation (Koch, 2001). This concurs with Johanson and Vahlne’s (1990) suggestion that the internationalisation process is a mixture of strategic thinking, strategic action, emergent developments, chance and necessity.

**2.4.3.1 Network Factor**

Networking factors are emphasised in Koch’s MEMS model within the mixed category. Exporting via agents is the most common operation mode for SMEs entering foreign markets (Ellis, 2000), and the networking through clients, competitors, colleagues, government, government institutions, friends and families most likely affect the selection of countries to penetrate and what mode to take (Coviello et al., 1997; Johanson et al., 2003b). In some extreme cases, network relationships can make it possible for small firms to enter foreign markets direct, via manufacturing operations (Björkman, 1996).
Three factors linked to the external and internal entry forces affect the foreign market entry process in relation to networking: time, number of active actors, and focal firm activity (Blankenburg, 2001). Figure 2.7 illustrates these connections.

**Figure 2.7: Factors linked to Network Affecting the Entry Process**

This diagram shows that significant external entry forces include: the firm has low conflict of interest with other networks, the firm is actively searching for foreign entrance among the networks, the firm’s network is tightly structured, and the firm is highly visible for other international network actors. Internal entry forces require sufficient network knowledge as well as ambitious and enthusiastic key persons who are connected to the network relationship. Both external and internal entry forces share one noteworthy element; the firm must be linked to other international actors in order to ensure certain foreign markets are realised (Blankenburg, 2001). Excluding the network approach, it appears that the factors influencing the entry mode and market selection match the dimensions of internationalisation models (Chetty, 1999).
2.4.3.2 Psychic Distance versus Globalisation Factors

Psychic distance often influences overseas market selection and mode of entry (Chetty, 1999; Koch, 2001; Welch et al., 1988). However, the perception of psychic distance does not apply to every case. For instance, some neighbouring countries, such as Cuba and North America, hardly trade with each other because of political circumstances, which suggests that political instability affects the world business environment (Wild et al., 2003). In another example, China and Japan may not be comfortable trading with each other because of concerns over tautological arguments that still influence some people’s sentiments. From another perspective, some countries that are far away from each other may have strong international business activities because of common characteristics. For instance, Commonwealth countries, such as India, Australia, and Malaysia have maintained international trade with Great Britain. Many countries across the world trade with the USA because of its enormous control on the world economy (Wild et al., 2003).

Psychic distance factors influencing internationalisation are not constant variables (Ekeledo & Sivakumar, 2004) and should be related to organisations and even individuals, not just countries (Johanson et al., 2003b). Conditions can change due to enhancement in communications systems, trade development, integration of an economy and other kinds of social exchanges. This may explain why geographical distance is almost disappearing and the country gap is getting narrower. Friedman (2006) claims the ‘World is flat’, meaning that in today’s new era of globalisation, “knowledge and resources are connecting all over the planet as never before. This ‘flattening’ of the world, can be a force for good – for business, the environment and people everywhere” (Friedman, 2006). Thus, psychic distance does not seem a
major obstacle for firms internationalising as evidence shows many firms invest directly in distant markets (Hollensen, 2001). Globalisation is overcoming concern about psychic distance.

2.4.3.3 Industry versus Firm Factors

Although globalisation enhances internationalisation, Rundh (2003) argues that different industries also affect the internationalisation process of both small and large companies. This view parallels that of Vahlne and Nordstrom (1993) who argue that beside firm competencies and characteristics, the pattern of internationalisation depends on industry characteristics, which includes economies of scale, research and development (R&D) intensity, product differentiation, government policies and transportation costs. Combining the firm and industry characteristics, it is assumed that when going international, a firm can choose between two strategies, either to compete directly with other global players or to implement a focused strategy via unique products or niche markets (Vahlne et al., 1993). The industry (I) and firm (F) are segmented by nation (N), region (R) and global characteristics (G). Refer to Figure 2.8.

![Figure 2.8: Firm and Industry Characteristics Matrix](image)

*Source: Nordström & Vahlne (1992, p.20)*
Each cell is associated with the incremental or rapid pattern of internationalisation and is briefly explained below:

- **Cell 1** (NF vs NI) indicates that internationalisation is still at early stage and based on a set of firm-specific advantages. National firms enter neighbouring markets first and use local agents or distributors. Therefore, the pattern closely relates to the incremental approach of internationalisation.

- **Cell 2** (RF vs NI) indicates that the firm is a strategic inventor with strong firm specific advantages. The firm can internationalise faster, enter markets at once and leapfrog some stages. Thus, the incremental pattern rapid models coexist.

- **Cell 3** (GF vs NI) shows that the global firm at a national industry level is much stronger than its competitors. The firm can enter markets in whatever order it prefers. Thus, the pattern is likely to follow both approaches.

- **Cell 4** (NF vs RI) is where a national firm enters a regionally structured industry, and goes international from a niche position. It enters product segments areas of less interest to its main competitors, because it lacks competitive advantages and a special strategy. The entry process is slow, sequenced and traditional.

- **Cell 5** (RF vs RI) is when a firm attempts a new region. It can internationalise in a traditional way if it follows a focused strategy and has limited resources. In some cases, it may internationalise faster than the Uppsala model traditionally predicts. Even though the pattern relates to the incremental approach, the rapid pattern is not excluded.

- **Cell 6** (GF vs RI) is where the global firm is more powerful and experienced than its competitors. The choice of markets, entry mode and timing may vary,
but the traditional incremental model (i.e: Uppsala model) is irrelevant and the rapid pattern is highly visible.

- **Cell 7 (NF vs GI)** is where a national firm enters a global industry. The firm’s competitive position is weak so it relies on a focus or niche strategy. The firm penetrates foreign markets or market segments unattractive to large competitors and the pattern is likely to fall within the two approaches.

- **Cell 8 (RF vs GI)** is the situation of a regional firm entering global industry. The firm is not very powerful and does not possess a competitive advantage, but can be perceived as a threat because it uses a high commitment mode of entry such as an acquisition strategy. The rapid approach is applicable.

- Lastly, **Cell 9 (GF vs GI)** is when a global firm enters a global industry. The firm has advantages to penetrate any market in any mode it chooses. The firm’s strategy and choice of foreign markets depend on its industry concentration, thus, the rapid pattern is highly apparent.

Vahlne and Nordstrom’s (1993) findings suggest national firms within national and regional industries, and regional firms within national industries (Cell 1, 2 and 4) are more inclined toward the incremental perspective and align to the Uppsala or stages models. The firms usually engage with slow and sequenced entry processes, using exporting to enter neighbouring markets. For the national firms to go into global industry, they must follow a focus or niche strategy and penetrate into less competitive markets.

Conversely, regional and global firms within regional and global industries, and regional firm within global industry (Cell 6, 8 and 9) tend to follow the rapid
perspective and align to the international new ventures or born global models. These firms seem stronger competitors, which allow them to speed their entry into foreign markets with various modes of entry at an appropriate time. However, the firm’s strategy and mode of entry depends on its competitive positions in the foreign markets.

**2.4.4 Application of Dimensions to Internationalisation Models**

The Finnish POM perspective complements the Uppsala and Innovation-related models as it gives a better insight into the SME internationalisation process, which is excluded from the incremental models. It also adds value to the International New Ventures and Born Globals models as it discusses firm characteristics, firm competencies and decision-maker characteristics, which are not addressed by the rapid models in turn, this aligns with the Resource-based view. The Five Pattern of Expansion model provides added evidence on the dimensions of internationalisation. Although the patterns are applicable to evaluating the behaviour of SME internationalising through gradual evolvement, they are less effective for describing rapid and networking approaches. Another major issue that both models have neglected is the networking perspective.

In summary, examination of the dimensions of internationalisation provides a background to explore SME internationalisation in Malaysia. Three models were discussed, the Finnish-POM model (Welch et al., 1988), the revised-POM model (Chetty, 1999) and the Five Pattern of Expansion model (Daniels et al., 2001). The international market entry modes and factors influencing market selection were examined and suggest it is imperative that SMEs select the most appropriate foreign
entry mode and outward strategy, as this choice affects the firm’s long term performance and survival (Ekeledo et al., 2004). The next section of the literature review discusses the driving forces influencing internationalisation.

2.5 Driving Forces for Internationalisation

The driving forces for SME internationalisation include motivational and hindering factors, firm specific factors, key personnel factors, external factors and industry factors. Understanding the key drivers behind a firm’s internationalisation helped derive arguments and research questions for the current study.

2.5.1 Motivational Factors (Why Internationalise?)

Motivational factors explain why an SME internationalises. Motivation explains “how behaviour is initiated, energized, sustained, directed and stopped” (Morgan, 1997, p.69) and therefore is critical in shaping the internationalisation pattern of SMEs (Ford & Leonidou, 1991). Broadly, motivational factors can be classified as proactive and reactive reasons (Czinkota, Johanson, & Ronkainen, 2002; Hollensen, 2001), or pushing, pulling and interactive pushing-pulling forces (Etemad, 2004c), and internal and external change agents (Crick & Chaudhry, 1997).

According to Czinkota et al. (2002) and Hollensen (2001), the proactive reason refers to aggressive behaviours of firms acquiring new markets and the reactive reason relates to passive reactions of firms seeking new markets. Czinkota et al. (2002) distinguished distinctive reactive reasons, such as, ‘risk diversification’ is found in, whilst Hollensen’s study (2001) detected three different factors;
competitive pressures, unsolicited foreign orders and proximity to international customers or psychological distance, as the reactive motives to internationalisation. Both studies found many similar proactive reasons to internationalisation, except Hollensen included ‘tax benefits’, whilst Czinkota et al. took in ‘change agent’. Both have similarities and differences as shown in Table 2.6.

### Table 2.6: Proactive and Reactive Factors

<table>
<thead>
<tr>
<th>Related Authors</th>
<th>Proactive Reasons</th>
<th>Reactive Reasons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hollensen (2001)</td>
<td>• Profit and growth goals</td>
<td>• Competitive pressures</td>
</tr>
<tr>
<td></td>
<td>• Managerial urge</td>
<td>• Small and saturated domestic market</td>
</tr>
<tr>
<td></td>
<td>• Technology competence</td>
<td>• Overproduction/excess capacity</td>
</tr>
<tr>
<td></td>
<td>• Unique product</td>
<td>• Unsolicited foreign orders</td>
</tr>
<tr>
<td></td>
<td>• Foreign market opportunities</td>
<td>• Extend sales of seasonal products</td>
</tr>
<tr>
<td></td>
<td>• Market information</td>
<td>• Proximity to international customers</td>
</tr>
<tr>
<td></td>
<td>• Economies of scale</td>
<td>• Psychological distance</td>
</tr>
<tr>
<td></td>
<td>• Tax benefits</td>
<td></td>
</tr>
<tr>
<td>Czinkota, Johanson &amp; Ronkainen (2002)</td>
<td>• Managerial urge</td>
<td>• Excess capacity,</td>
</tr>
<tr>
<td></td>
<td>• Profit goal, growth</td>
<td>• Declining domestic sales</td>
</tr>
<tr>
<td></td>
<td>• Economies of scale</td>
<td>• Small home market</td>
</tr>
<tr>
<td></td>
<td>• Marketing advantages</td>
<td>• Risk diversification</td>
</tr>
<tr>
<td></td>
<td>• Exclusive market information</td>
<td>• Extend sales of seasonal products</td>
</tr>
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<td></td>
<td>• Unique product</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Advanced technology</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Foreign market opportunities</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Change agents</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Extracted from Czinkota et al.,(2002) and Hollensen (2001)*

Crick and Chaudhry (1997) propose two types of change agents. First, internal change agents include differential company advantages, available production capacity, accumulated unsold inventory, and economies resulting from additional orders. Second, external change agents include unsolicited or fortuitous orders, affects of government stimulation, consequences of economic integration, influence from a chamber of commerce, industrial association, bank and other company, as
well as economic climate and trading conditions in both domestic and international markets. These change agents are influential in initiating exporting (Johnsen et al., 1999).

Reviewing a plethora of empirical evidence of why SMEs internationalise, Etemad (2004c) suggests three forces, “push, pull, and interactive push-pull factors”. The push factors are the internal drivers, the pull factors are external environmental issues, while the interactive push and pull factors are the mediating forces. Indicators for these are presented in Table 2.7. These indicators are similar to the forces mentioned by others. The pushing forces are similar to the proactive reasons and internal change agents; and pull forces include variables discussed in the reactive reasons and external change agent arguments.

<table>
<thead>
<tr>
<th>Table 2.7: Pushing, Pulling, and Interactive Pushing-Pulling Forces</th>
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</thead>
<tbody>
<tr>
<td><strong>Pushing Forces</strong></td>
</tr>
<tr>
<td>Key Manager characteristics</td>
</tr>
<tr>
<td>Economics of operations</td>
</tr>
<tr>
<td>Competition and strategy characteristics</td>
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<tr>
<td>R&amp;D, innovation, and technological change</td>
</tr>
<tr>
<td>high-technology products and markets characteristics</td>
</tr>
<tr>
<td>Strategic logic of international operations</td>
</tr>
</tbody>
</table>

Source: Summarised from Etemad (2004c, Table 1, p.7, Table 2, p.8, Table 3, p.10)

Why SMEs internationalise may differ between developed and developing countries. Karagozoghu and Lindell (1998) found that United States SMEs were motivated by reactive approaches and relied on inquiries from potential foreign buyers. They internationalised when global market opportunities promised more than domestic
opportunities or for competitive Research and Development. They responded to
internationalisation when internal factors demanded them to venture out, and they
sought for markets when they see opportunities.

Unlike developed countries, developing countries, such as Malaysia use a proactive
rather than reactive approach when going international. Abdul Rashid and Tan
(2002) found long term growth and profit, economies of scale, marketing
advantages, unique products or technologies, risk diversification, management urge,
and encouragement of export promotion activities were major motives for Malaysian
firms to internationalise. Their study suggests that long-term planning, managerial
aspects, and government supports are driving forces for internationalisation.

Consequently, the contradictory findings on triggering factors between developed
countries and emerging economies warrants investigation. The current study argues
that what most likely drives Malaysian SMEs to venture into international markets is
still largely subject to conjecture and therefore the motivations to internationalise are
examined.

2.5.2 Hindering Forces to Internationalisation

Morgan (1997) suggests examining the hindering and motivational factors together.
Hindrance forces are associated with “all those attitudinal, structural, operational,
and related constraints that hinder firm export expansion” (Leonidou et al., 1996,
p.537). Compared to larger firms, SMEs entering foreign markets face different
types of challenges (Fillis, 2002). Similarly, those located in emerging markets face
different business situations from those in developed and advanced countries (Crick
et al., 1998). The perception of barriers also changes in regard to their type and severity (Dichtl, Köeglmayr, & Müller, 1990), although others argue that challenges may occur at any stage of internationalisation (Bilkey et al., 1977; Cavusgil, 1980; Leonidou et al., 1996).

Literature review shows extant evidence in relation to internationalisation problems (Fillis, 2002). The international expansion barriers are grouped into internal and external factors, specifically, they are classified into five categories: internal-domestic, internal-foreign, external domestic, external-foreign (Leonidou, 1995a; Morgan, 1997), and exporting problems and level of export development (Leonidou, 1995a), explained as the following:

1. The internal-domestic problems relate to any obstacles within the firm that occur in its home country. The problems can be in the form of resources, managerial, production incapability and focus on domestic sales.

2. The internal-foreign problems are also issues within the firm but occur in foreign markets, for examples, transportation, logistics, financial arrangement, limited knowledge, product specification, after sales service and high risks and costs.

3. The external-domestic problems are issues within the firm’s home country due to the external environment, such as complex exporting documentation and procedures, lack of support, assistance or facilities from the government, being unaware of the government supports and facilities, high technical standard, limited venture capital and high exporting costs.

4. The external-foreign problems are difficulties arising from the external environment and experienced at the foreign market, such as rules and
regulations imposed by foreign governments, currency rates, intense
competition, lack of foreign market knowledge, different business practices,
language and cultural differences and information on the distribution
channel.

5. The exporting problems and level of export development deals with issues
arising at different stages of the export process (Leonidou, 1995a).

These problems may arise before, during or after the internationalisation, depending
on what the setbacks are and how they are handled. Different problems can also
occur when dealing with different industries and barriers need to be examined (Fillis,
2002) within different contexts (Crick et al., 1998). Since this study includes
companies from different industries, it will help uncover hindrance to the
internationalisation process in varied settings within emerging markets.

Dana (2003) provides an example from the fresh food industry, where ineffective
transportation services, high transportation cost and excessive tax in exporting cause
exporting difficulties for farmers or fishermen in New Zealand. In the UK and
Ireland’s craftwork industry, Fillis (2002) discovered that SME owners lack interest
in internationalising because they perceived that small firms had no capability to
compete, especially if faced with insufficient production capacities. They also had
little time to research new markets and believed government agencies did not
courage them to be globally oriented. In studying the apparel industry in
Scotland, Johnsen and Johnsen (1999) found that the main barriers to
internationalisation were related to communication gaps where local competitors
were not willing to exchange information with others. In another example, the non-
oil industry in Saudi Arabia, encounters difficulties with cross border activities. Other problems include competition in export markets, lack of market information, fear of imposed dumping policies, increasing tariffs, lack of clarity about trade agreements, import restrictions, high costs of importing raw material and lack of suitable personnel to handle the exporting activities (Crick et al., 1998).

Two studies conducted within a technology-based industry in the Asia-Pacific (Milton-Smith, 2004) and in the USA (Karagozoghu et al., 1998) revealed similarities and differences. Both contexts showed that cultural distance, lack of knowledge of foreign markets and resources are obstacles to international expansion. Lack of networking caused difficulties for getting appropriate foreign distribution channels. Asian high-tech SMEs perceived their governments’ role as intrusive, whereas the US firms were more concerned with generating R&D to improve their competitive positions.

Etemad (2004c) raises three arguments about the obstacles SMEs face when internationalising. These are, that existing internationalisation theories are ineffective at describing the internationalisation of smaller firms; that SMEs face many challenges in competing with bigger and established players in international markets; and that SMEs need to develop their own distinctive competencies. The common challenges SMEs face are the faster pace of the business environment, shorter product and technological life cycles, increasing R&D costs and limited resources. This means SMEs need to create competencies, in terms of assets, capabilities and strategies to overcome entry, exit and competitive barriers.
In summary, this section has presented the motivational and hindering forces to internationalisation and compared various industries and contexts. Next, following the advice of Katsikeas and Piercy (1993) other key drivers affecting internationalisation, such as firm specific factors, key personnel factors, external factors and industrial factor will be discussed.

### 2.5.3 Firm-Specific Factors

Firm-specific factors include the firm characteristics, competencies, resources, entrepreneurial orientation and decision-makers (Bell et al., 2007; Chetty et al., 2003b; Jones et al., 2005). These components are discussed below.

#### 2.5.3.1 Firm Resources

The literature on firm resources distinguishes four main components: managerial, personnel, financial and knowledge resources (Bell et al., 2007; Knight & Cavusgil, 2004). Firm resources also includes the physical, organisational, relational and network resources (Calof et al., 1995). The more resources the firm has, the more likely it will engage in international activities (Almeida, Sapienza, & Michael, 2000). Unique resources, such as rare, inimitable, and non-substitutable resources (Barney, 1991) signify the competitive strength of the firm. So these become a competitive advantage of the firm (Olivares-Mesa & Suarez-Ortega, 2007).

#### 2.5.3.2 Firm Competencies

Firm competencies provide sustainable advantages to the firm (Prahalad et al., 1990). The competencies include the knowledge-based, resource-based and situational approaches, found within the firm’s adopted technology, market
knowledge and strategic planning (Obrecht, 2004). Possessing advanced technology allows SMEs to operate faster in many markets as high technological intensity provides unique technological know-how (Dhanaraj & Beamish, 2003). The importance of market knowledge (for example, information-gathering, learning, overseas visits, experience and market research) is supported by many studies (Autio, 1999; Bell et al., 2007; Chetty et al., 2003b). Although, the learning and knowledge absorption capacity is limited within SMEs, Mtigwe (2005) argues that competencies rely heavily on the flexibility of human capital and the entrepreneurial planning orientation of the firm. Consequently, firms that formulate a good business plan are able to internationalise their firms competently (Aaby & Slater, 1989).

2.5.3.3 Entrepreneurial Orientation

Entrepreneurial orientation involves how a firm aligns its process, practices and managerial activities towards new markets (Lumpkin & Dess, 2005). This is relevant to the international entrepreneurship (IE) and resource-based views. It involves strategic intentions and top management’s actions, such as propensity to take risk, levels of innovation and ability to recognise opportunities (Smart & Conant, 1994). It embraces aggressive behaviour toward competitors, the choice to act autonomously and proactively to marketplaces (Lumpkin et al., 2005). This orientation explains the willingness to take risks in pursuing the firm’s goals, adopt the latest technology and adapt to changes in the business environment (Miles, Arnold, & Thompson, 1993). Becherer and Maurer (1997) and Prashantham (2004) argue that high level of entrepreneurial orientation assists the firm’s growth and expansion, resulting in better firm performance. Dynamic capabilities, such as assets, process and structures also have an effect on international performance by
allowing the firm to sense and seize new international market opportunities (Jantunen, Puimalainen, Saarenketo, & Kyläheiko, 2005).

2.5.3.4 Firm Characteristics

Firm characteristics have several indicators, such as firm size, age, structure, products, firm industry, ownership status and location of the firm. Firm size affects internationalisation behaviour (Olivares-Mesa et al., 2007) while firm age influences the pace or speed of a firm’s internationalisation (Zahra et al., 2002). The products variable distinguishes between goods and services (Jones et al., 2005), standard of quality (Ibeh & Young, 2001) and product age or life cycle (Autio et al., 2000a). Products also designate which industry the firm belongs to which is pertinent since certain industries have different impacts on the internationalisation process (Boter & Lundström, 2005).

The existence of an export department or international division in a firm’s structure (Welch et al., 1988) and the level of formalisation and centralisation (Jones et al., 2005) affect the process. Ownership status whether local, foreign or joint ownership also makes a difference to the internationalisation of SMEs (Fernández & Nieto, 2005; Rialp-Criado, Axinn, & Thach, 2002). Finally, the location or the operating site of an SME may give advantages to the firm, for example if they are placed at structured sites with infrastructure facilities (Boter et al., 2005; Walker & Brown, 2004). Therefore, firm characteristics construct fit well with both the POM and IE perspectives.
2.5.4 Key Personnel Factors

Key personnel in the SME can be the owners, managers, decision-makers or founders of the firms depending on their level of involvement in managing the firm (Bjerke, 2007). The importance of key personnel in influencing the firm decision to internationalise has been discussed in many studies. Based on extant literature, five main categories shape the key personnel factors. These are philosophical view, social capital, human capital, international orientation and personal characteristics.

2.5.4.1 Philosophical View

The philosophical view is related to the values, attitudes and perception placed on internationalisation (Jones et al., 2005). It is related to the level of knowledge about foreign markets, the triggering motivation or hindrances key personnel identify (Chetty et al., 2003a). The philosophical view incorporates how the decision-makers foresee the benefits, costs and risks of internationalisation (Oviatt & McDougal, 2005), and whether they trust their intuition (Eyre & Smallman, 1998). Key personnel need to be committed in realising the firms’ potential and be able to handle complexity (Mockaitis, Vaiginiene, & Giedraitis, 2006). In addition, entrepreneurial inclination and spirit of the key personnel are also included in the philosophical view (Evangelista, 2005).

2.5.4.2 Social Capital

Social capital explains the ability of key personnel to create relationships with others at all levels. This requires establishing communication networks (Jones et al., 2005) which in turn requires good interpersonal skills in listening, consulting, explaining and supporting others (Eyre et al., 1998). The social-network influences
internationalisation by acting as source of updated and timely information and providing referrals of when to enter overseas' markets and which markets to penetrate (Burt, 1997; Sharma & Blomstermo, 2003). It also provides information on procedures and regulations in certain markets and helps to identify appropriate foreign partners, suppliers or agents as the channels of distribution (Bell, Crick, & Young, 2004). Social capital also facilitates knowledge accumulation of foreign markets and relevant institutions abroad (Olivares-Mesa et al., 2007). Enhanced of knowledge also affects changes in products demand (Zahra, Matherne, & Carleton, 2003). These indicators all contribute to firm choices of going international (Jansson & Sandberg, 2008; Loane & Bell, 2006; Madsen et al., 1997).

2.5.4.3 Human Capital

Human capital relates to the skills and knowledge of personnel, and particularly key personnel (Shepherd et al., 2005). The key personnel who encourage internationalisation are relatively fast learners and accommodate active forms of learning (Sadler-Smith, Spicer, & Chaston, 2001). Education, training and experience help build human capital, so they can form a competitive advantage (Olivares-Mesa et al., 2007). In addition, ability to make appropriate decision-makings as well as managerial and leadership skills provide insights into supporting the internationalisation of an SME (Barney, 1991). By virtue of being internationalised, SMEs also gain further knowledge in, for example, managerial skills, cultural awareness, foreign regulations and procedures, financial and tax policies, market entrance and operation strategies and networks (Kumar et al., 2005).
Evangelista (2005) argues that for manufacturing SMEs, technical background and industry experiences add value for internationalisation particularly in terms of production lines, special equipment and R&D processes (Boter et al., 2005). Notably, human capital expertise is needed when internationalised products require alterations (for example, new product designs and quality enhancement) to fulfill the demand of certain countries and niche markets (Olivares-Mesa et al., 2007). When human capital is equipped with technical knowledge, the firms’ ability to accommodate to competitors technological advancements can be easily made (for example, changes to products or equipment), thus opportunities to internationalise can be exploited (McEvily et al., 2002).

2.5.4.4 International Orientation

International orientation involves the vision, perception and preparation of key personnel towards internationalisation. The process of internationalisation can only proceed if these key players possess an international orientation. This is influenced by their educational background, existing formal and informal international contacts, contacts with overseas visitors, language skills, knowledge of foreign competitors and experience of foreign cultures (Lloyd-Reason & Mughan, 2002). Their vision must be broad to understand different societies, cultures and ethics and they must be prepared to adapt to handling business in foreign countries (Eyre et al., 1998).

The most important indicator for an international orientation is having key personnel with global mindsets or vision (Delaney, 2004). Possessing a global mindset “allows individual executives, teams, and entire organisations to understand a business or market without regard to country boundaries” (Bouquet, 2005, p.6). Friedman
(2006) advocates that the key personnel need to visualise out of the ‘normal box’ with ‘passion and curiosity’ because this positions them better through self-education and self-motivation in relation to their competitors. Delaney (2004) suggests global mindsets can be developed by being adaptable to changes (e.g. new environments & new experiences), willing to learn different cultures and take risks, having strong personality traits (e.g. innovate, energetic, patience, high self-esteemed, passion, enthusiasm, playfulness, inspirational and curiosity), willing to travel, valuing the relationship more than the business deal, possessing management and leadership skills, and being courageous. Unfortunately, so far there is little evidence to link global mindsets with SME internationalisation (Acedo & Jones, 2007).

2.5.4.5 Personal Characteristics

Based on the literature, personal characteristics of key personnel include previous experience particularly at the international level (Zucchella, Palamara, & Denicolai, 2007). This could be gained through foreign work experience (Burgel & Murray, 2000), education abroad (Roberts & Senturia, 1996), affluent background (Westhead et al., 2001) and demographics (e.g. gender, age) (Manolova, Brush, Edelman, & Greene, 2002). Personality traits, such as good interpersonal skills, honesty, tolerance and trustworthiness may also act as determinants of internationalisation (Oviatt, Shrader, & McDougall, 2004).

Personal background, such as level and place of education, previous employment, and knowledge of foreign languages also intensify the process of firms’ internationalisation (Aaby et al., 1989; Ibeh, 2003b). Key personnel who have
experienced living abroad are more likely to seek involvement in international business than those who have not (Bell et al., 2007). Internationally exposed top managers can accelerate SMEs becoming international players faster than the competitors without this experience (Reuber & Fischer, 1997), which supports the notion that experiential knowledge and learning are vital (Johanson et al., 1977). This knowledge and learning process helps key personnel to commit to international activities (Johanson et al., 2003b).

In summary, key personnel factors such as, the philosophical view, social capital, human capital, international orientation and personal characteristics promote the internationalising of firms. The interests, personal goals, managerial and leadership skills, management practices and business goals of key personnel (Buckley & Ghauri, 1999; Kjellman & Ramstrom, 2004; Kotey & Meredith, 1997; Tornroos, 2003) are also crucial.

2.5.5 External Factors

Turning to the external factors affecting SME internationalisation identifies a range of divergent indicators. The external or environmental factors are classified into the four indicators of market environment, governmental characteristics, environmental characteristics, competitive environment.

2.5.5.1 Market Environment

Market environment refers to the size of the market, sales potential, availability and quality of infrastructure or facilities, and the degree of internationalisation in domestic as well as foreign markets (Jones et al., 2005; Root, 1994) and these are
affected by the economic environment. In emerging markets or developing countries where foreign investment is apparent (Wild et al., 2003) growth rates of revenue, market share and returns on investment are higher because low capital intensity is required to conduct foreign operations (Roberts, 2005). In addition, the market imperfections approach identified by Ibrahim (2004), claims suitable locations can bring more benefits if a firm invests in a particular foreign market. Normally, large markets are targeted because they have more sales potential, which means that SMEs equipped with management determination and competencies can become significant players (McNaughton & Bell, 2004).

2.5.5.2 Government-related Issues

Government issues, such as regulations, export policy, procedural customs, endowments and incentives (Mtigwe, 2005; Root, 1994) also affect the internationalisation process. In addition, internal issues such as, tax legislation, interest rate policy, labor law regulations, and the administrative infrastructure (Boter et al., 2005) have an impact on a firm’s choice. For small companies wanting to internationalise, incentives, endowments, and participation in government schemes and programmes provide support and encouragement. However, procedural customs, government trade policy, international standards and regulations can also impose high challenges for realising foreign expansion for SMEs (Suárez-Ortega & Alamo-Vera, 2005).

Similarly, regional or global trade policy that are regulated by international agreements are outside the influence of SMEs (unless a government gives it a flexible interpretation) (Crick & Chaudhry, 2000). Inconsistencies amongst the
supporting government agencies and in policies in certain countries (for example, Malaysia) cause confusion regarding the supports and accurate information (Mahajar et al., 2006). Storey (1994) believes that complexity increases government uncertainties of what and how to assist the SMEs. A major challenge in formulating government policy is the provision of support for SMEs seeking to internationalise (Wright, Westhead, & Ucbasaran, 2007).

2.5.5.3 Environmental Characteristic

Environmental characteristic in the form of political, economic, social, technical, and legal requirements at home and in the target country also affect internationalisation process (Root, 1994). According to Lumpkin and Dess (2005), the environment is characterised by four elements: 1) dynamism, which explains the amount and speed of change, 2) munificence - the scarcity or abundance of critical resources required for international operation, 3) complexity – the regulations, competition and technological demand within the foreign environment, and 4) industry characteristics. The firm needs to be alert to changes in the environment and if necessary, it must adapt to these changes (Gartner, 2005). This is vital since the source of information enabling opportunities to be recognised comes from the environment (Coulthard & Loos, 2007). Studies show that dynamic environments have a positive influence on firm internationalisation, when compared to static environments (Dess, Lumpkin, & Covin, 1997; Zahra, 1993).

2.5.5.4 Competitive Environment

Competitive environment depends on the levels of competition placed on price, performance, design or style, patent protection, brand name, packages and services
The extent of a competitive environment is determined by the cooperation, co-dependence, co-learning, risk sharing, and joint actions with others (Etemad, 2004e). This suggests that contact with other players is essential for SMEs to learn and to be aware of the competition in domestic and international environments (Karagozoghu et al., 1998; Oviatt et al., 2005; Rundh, 2003). Apart from self-networking, Wright et al., (2007) suggest the authorities support SMEs by providing reliable and updated information that is spread fairly so firms are prepared to face a competitive environment.

2.5.6 Industry Factors

The pattern of internationalisation process also depends on industry characteristics. Two main elements are the industry structure and economies of scale (Lumpkin et al., 2005; Vahlne et al., 1993). Industry structure is viewed as capital intensive (where capital usage is more emphasised than labour) and concentrated industries (Baron & Shane, 2004). This means the R&D capacity and intensity of developing or improvising products or services is the focus. For instance, Japanese SMEs rely heavily on research alliances with other SMEs in different industries and with government research institutes. This has enabled that country to gain support for its national innovation system as well as maintain a high capacity for innovation (Sugasawa & Liyanage, 1999).

On the other hand, economies of scale occur when SMEs turn manufacturing into mass production due to growth in international activities spread over many markets. Economies of scale can be achieved by: focusing on global manufacturing in only one home country (Chetty et al., 2003a); manufacturing specialised and customised
products (Morgan et al., 1997); 3) using high commitment foreign entry modes, such as franchising (Dana, Etemad, & Wright, 2002); and 4) pooling operations under one network area (Fulop & Richards, 2002). Achieving economies of scale encourages cost savings and profit exploitation.

2.6 Application of Internationalisation Theories/Models

2.6.1 Reviews on SME Internationalisation

Although a number of reviews of the model of internationalisation have been undertaken, there are still considerable gaps in the literature. For example, Peterson (2004) reviewed 124 articles published from 1990 to 1999, but cited only the methods and samples of the studies. Andall and Fischer (2005) reviewed more than 200 internationalisation articles published between 2000 and 2005, but only looked into ‘born global SMEs’. Manolova and Manev (2004) analysed articles published between 1996 to 2001 and focused on internationalisation linked with SME performance. Arikan (2004) described foreign entry modes, and in particular cross border mergers and acquisitions, yet the review is incomprehensive as it was based only on the United States. Reflecting on these reviews identifies several pertinent points.

1. The timing of the reviews affects the level of evidence. For example, INVs, Born Globals, and International Entrepreneurship theories are still in the early stages of research interest;

2. Reviews that focused on specific type of firms, such as ‘born globals’ may neglect ‘the traditional firms’ or other types of rapid growth firms (e.g. INVs, Global startups, Instant Internationals);
3. Reviews that centre on specific foreign entry modes, such as mergers and acquisitions, may ignore other relevant foreign entry modes (e.g. exporting, subcontracting, etc); and

4. Many reviews concentrate on firms operating in developed and Western contexts, thus give less emphasis on emerging markets or Eastern countries.

A review of research is available involving different manufacturing industries in various and diverse locations, as conducted by Autio et al., (2000a). Sixteen articles published from 2000 to 2008 were reviewed and representing a mixture of industries (e.g. Technical-based, Knowledge-based, Biotech, Computer, Electronics, Textiles, Industrial Machinery, Metal and Plastic processes). The study methods used also varied, with quantitative methods (survey and hypothesis testing for six articles), qualitative methods (exploratory, case studies, in-depth interviews and experts opinions for five articles) and mixed methods (combination of quantitative and qualitative in five articles) being used. This indicates that the research on firms’ internationalisation is multifaceted. All 16 articles, except for two (13%) integrated several internationalisation-related theories/models in their studies. The authors of the two articles that did not integrate theories or models strongly urge an integrated approach for further research as that indicate that one theory is insufficient to explain the behaviour of firms internationalisation process (Autio et al., 2000a).

2.6.2 Integration of Theories and Models in SME Internationalisation

A review of integrated models and theories on SME internationalisation was undertaken, and included seven conceptual articles from between 2003 and 2006. Table 2.8 presents a brief summary of the integrated frameworks reviewed and
summarizes the implications for research. A brief explanation of each is provided below:

<table>
<thead>
<tr>
<th>Authors</th>
<th>Examples of Integrated Theories/Models</th>
<th>Main Implication</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malhotra, Agarwal, &amp; Ulgado (2003)</td>
<td>Integrates incremental, network, Market Imperfections (Hymer, 1976), International Product Life Cycle (Vernon, 1966), Eclectic paradigm (Dunning, 1995).</td>
<td>1) Suggests that a collective theory is needed to better explain internationalisation. 2) A single effort is unlikely to depict the current international trade and investment patterns.</td>
</tr>
<tr>
<td>Bell, McNaughton, Young &amp; Crick (2003)</td>
<td>Integrates several theories (e.g. Incremental, Rapid, Contingency theory, Globalisation view, Knowledge-management terms and Knowledge-intensive SMEs).</td>
<td>1) Knowledge-intensive SMEs take the rapid path, but the pace depends on the adopter or innovator status. 2) Criticises the incremental approach, as it is unable to describe the rapid pattern of internationalisation.</td>
</tr>
<tr>
<td>Etemad (2004a; 2004c)</td>
<td>Integrates many theories (e.g. International Entrepreneurship, Resource-based, Networking and Rapid models), involving extensive literature review.</td>
<td>1) Extant theories are unable to respond to SME internationalisation. 2) Highlights the integration of firm, entrepreneurs and environment. 3) Researchers need to explore new theories in this subject.</td>
</tr>
<tr>
<td>Hurmerintha-Peltomäki (2004)</td>
<td>Integrates the Stage model (Incremental, Rapid and International Entrepreneurship)</td>
<td>1) Highlights the patterns of the time between a firm’s birth and time of first foreign entry, its international outlook, and its size. 2) Rapidly globalised world changes the cycles of business. Indicates the need for updated theories.</td>
</tr>
<tr>
<td>Ruzzier, Hisrich, &amp; Antoncic (2006)</td>
<td>Integrates thorough theories and utilizes definitions on SMEs / MNEs internationalisation.</td>
<td>1) Proposes an integrative theoretical model based on mode, market, product and time linked to internationalisation performance, key antecedents and consequences of firm internationalisation process.</td>
</tr>
</tbody>
</table>

*Source: Researcher’s compilation from various authors.*
• Malhotra et al. (2003), aimed at a unified theoretical framework that included entry modes, integrated and incremental timing strategies, networking, market imperfections, transaction costs, international product life cycle and eclectic paradigm theories. Their findings support a collective of theories needed to better-explain firms’ internationalisation.

• Bell et al. (2003) studied knowledge-intensive SMEs by integrating incremental, born global, contingency, globalisation and knowledge-management perspectives, and discovered SMEs in knowledge intensive industries take the rapid path. However, the pace depends on whether firms are adopters or innovators of technology. They claim Uppsala model is unable to describe the rapid pattern of internationalisation and that knowledge-intensive SMEs are better viewed from a rapid perspective.

• Etemad (2004a; 2004c) concluded an extensive literature review and claims that the internationalisation of SMEs and MNEs integrated many theories. Etemad developed a framework based on ‘Dynamic Open Complex Adaptive Systems’ (DOCAS) and revealed that the extant theories are inept at explaining both SMEs and MNEs internationalisation.

• Hurmerintha-Peltomäki (2004) integrated incremental, rapid and international entrepreneurship theories to relate the role of ‘time’ to firm internationalisation. Her study highlighted that a rapidly globalised world has changed the cycles of business and suggests that internationalisation activities do not fit with linear structured perspectives; rather they move toward cyclical perspectives, which are lacking in the traditional internationalisation theories.
• Jones and Coviello (2005) bring together concepts common to internationalisation and entrepreneurship research. The integration of incremental internationalisation, international entrepreneurship, the resource-based, network and rapid theories, enabled them to propose a unifying direction via the three-stage process models. Their findings suggest SME internationalisation can be viewed from a behavioural and chronological perspective. Yet, they claim the integration of theories and models does not predict, but could only characterise SME internationalisation.

• Ruzzier et al. (2006) attempted to comprehend the similarities, differences and specific factors affecting SME and MNE internationalisation and analysed the past and current studies. They contributed an integrative conceptual model based on four internationalisation properties: mode, market, product and time, which are linked to performance, key antecedents and consequences of internationalising the firm.

• Mtigwe (2006) sought convergence of International Entrepreneurship and International Business theories, and classified the theories into four phases: ‘Classical Theories’ (Absolute Advantage, Comparative Advantage and the Hecksher – Ohlin Factor Proportion Theory); ‘Early Market Imperfections Theories’ (FDI Theory and IPLC); ‘Latter Day Market Imperfections Theories’ (Portfolio, Internalization, Eclectic and Resource Advantage Theories); and ‘Internationalization Theories’ (Incremental, Network and International Entrepreneurship Theories). Mtigwe posits that the integration of various scholarly works and theoretical approaches demonstrates comparability with each other.
This brief analysis demonstrates the need for an improved theoretical integration in understanding SME internationalisation. Significant points that emerge from this discussion include:

1. A single model is unlikely to depict the international trade and investment patterns of today;
2. Certain industries are better explained by specific appropriate theories;
3. Researchers need to explore new theories on the subject of SME internationalisation;
4. Updated theories are needed to complement or extend existing theories;
5. Theoretical integration is not aimed at envisaging the process of internationalisation, but to demonstrate it;
6. Researchers should test the authenticity of current models on SME internationalisation; and
7. The internationalisation theories complement each other, thus pulling them together could strengthen the evidence they provide.

The above discussion demonstrates the need to integrate internationalisation theories and models. The next section reviews the themes and constructs relevant for studying internationalisation and provides justification for these in this study.

2.6.3 Application of Themes and Constructs in SME Internationalisation

Research has utilised several constructs or themes in the firms’ internationalisation process. For example, Ibrahim (2004) constructs a conceptual framework on SME internationalisation motive and process, as illustrated in Figure 2.9.
Although this framework provides several indicators on entrepreneurial and internationalisation factors, it does not address some others:

1. The framework focuses only on the entrepreneurial factors, whereas the firm, external and environmental factors are not considered (Etemad, 2004b);

2. The indicators of the entrepreneurial factor can be grouped around the entrepreneurs’ background and characteristics, yet pertinent elements related to entrepreneurs or key personnel of an SME, like international orientation (Aaby et al., 1989), social capital, philosophical view and human capital are not given sufficient attention (Jones et al., 2005);

3. The framework excludes details of the process on ‘how’, ‘when’ and ‘where’ firms internationalise, meaning that it neglects the extent, speed and scope of the internationalisation process (Zahra et al., 2002);

4. Impediments to internationalisation have been eliminated whereas they are correlated to the motives for internationalisation (Morgan, 1997); and

---

**Figure 2.9: Theoretical Framework on Internationalisation Motive and Process**

<table>
<thead>
<tr>
<th>Entrepreneurial Factors</th>
<th>Internationalisation Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Traits</td>
<td>• The firm growth process</td>
</tr>
<tr>
<td>• Culture</td>
<td>• Organizational learning &amp; acquisition of knowledge about foreign market</td>
</tr>
<tr>
<td>• Positive/negative environment</td>
<td>• Networks &amp; organizational linkage</td>
</tr>
<tr>
<td>• Family background</td>
<td>• Resource availability</td>
</tr>
<tr>
<td>• Education &amp; experience</td>
<td>• Product cycle</td>
</tr>
<tr>
<td>• Attractiveness of opportunity</td>
<td>• Market imperfections</td>
</tr>
</tbody>
</table>

The Entrepreneur’s Internationalisation motive & process

*Source: Adapted from Ibrahim’s model (Ibrahim, 2004, p.135)*
5. The framework neglects the rapid internationalisation models, such as INVs (Oviatt et al., 1994) Born Globals (Madsen et al., 1997) and International Entrepreneurship (Dimitratos et al., 2003).

A recent article proposed seven conceptual themes from a policy concerning the internationalisation of private SMEs (Wright et al., 2007). The themes were, timing, intensity and sustainability, mode, influence of the domestic environmental context, leveraging of external resources, and unit of analysis, such as the firm or entrepreneurs and the effect of internationalisation on SME performance. Wright et al. (2007) also recommended industry factors and ‘tradability of goods and services’. These themes have not been tested as a whole model as of yet; however some combinations of the themes have been applied. Thus, they are included in this study.

In conclusion, Mtigwe (2006p. 20) argues that, “some models with varying amounts of detail have already begun to take root”; yet, “a great deal more work in this regard needs to be undertaken”. Based on this urge, the current study integrates a range of relevant theories and models to investigate the internationalisation process of manufacturing SME in various industries in Malaysia.

2.7 Integrated Framework for This Study

In line with the debate that one theory cannot explain the internationalisation process of SMEs, this study of the manufacturing industries in Malaysia investigates the Incremental, Rapid, Network, Resource-based and International Entrepreneurship Theories of internationalisation. Given the Finnish-POM Model provides constructs
on the outward process (how), market selection (where), product and services (what) that are relevant, these are also included. In addition, the approaches to and dimensions of internationalisation, the driving forces of internationalisation including the triggers and hindering factors, the firm factors, influence of key personnel, as well as external and industry factors will be integrated into a holistic approach to this study.

The study’s integrated framework showing the four components is presented in Figure 2.10. The themes and the details of each construct within the themes are described in the Table 2.9.

**Figure 2.10: Integrated Conceptual Framework of the Internationalisation of SMEs**

- **INTERNATIONALISATION AWARENESS** (What & How)
  - Networking
  - Information
  - Knowledge

- **DRIVING FORCES** (Why)
  - Motivating Factors (*Domestic and Global Forces*)
  - Impediments Factors (*Internal and External Barriers*)

- **INFLUENTIAL KEY DRIVERS** (Who, What)
  - Firm Specific
  - Key Personnel
  - Environment

- **INTERNATIONALISATION PROCESS** (Manufacturing SMEs in Malaysia - How)
  - Dimensions
    - (Speed, Entry Mode, Scope)
  - Patterns
    - (Traditional, Rapid or Born Global)

*Source: Developed for this thesis*
<table>
<thead>
<tr>
<th>Components</th>
<th>Themes</th>
<th>Constructs</th>
</tr>
</thead>
</table>
| **I: Internationalisation Awareness** | Networking | How: Awareness was created  
Who and What: Which institutions, whose involvement, etc |
| **II: Internationalisation Process** | Dimensions | Speed: The first time a firm commits to foreign markets entry from the date of firm’s establishment  
Enter mode: The means of international operations  
Scope: Market selections and number of foreign markets  
Patterns: Traditional: Sequential and in stages  
Rapid: Internationalise between 1 to 5 years  
Born Global: Since inception and/or less than a year |
| **III: Driving Forces** | Motives | Domestic Forces: Market issue, Endowments, Incentives, Survival, Growth, Expansion, etc  
Global Forces: Globalisation, Market opportunities, Follow suppliers, Resource seeking, etc  
Impediments: Internal Barriers: Lack of resources, Local market focus, Information received, Government policy, etc  
External Barriers: Host countries procedures & regulations, Distribution channels, ‘Psychic Distance, etc |
| **IV: Influential Factors** | Firm Specific Factors | Firm Resources: Tangible and intangible resources: e.g. financial, physical, technological, human resources, etc  
Firm Competencies: Firm value added e.g. technology, market knowledge and planning, etc  
Entrepreneurial Orientation: Innovativeness, risk-taking, proactive, competitive, aggressiveness & autonomy, etc  
Firm Characteristics: Firm size, age, structure, products, firm industry, ownership status and location of the firm, etc  
Key Personnel Factors: Philosophical View: The values, perceptions, and attitudes towards internationalisation, etc  
Social Capital: The ability of key personnel to create relationships, to communicate with others at all levels and at all contexts, etc  
Human Capital: Skills, knowledge, and capabilities - expertise, judgmental, experience, decision-makings, managerial and leadership skills, etc  
International Orientation: Views and perceptions of decision makers, broad vision, global mindsets, degree of openness to adopt and adapt to foreign countries/cultures, etc  
Personal Background: Personal background, exposures, demographic characteristics, and life experience, etc  
External Factor: Market Characteristics: Size, potential and degree of internationalisation – both domestic & foreign, etc  
Government-related Issues: Include regulations, export policy, tax policy, procedural customs, endowments, incentives  
Environmental Characteristics: Political, economic, technical social, and legal at home & target country, etc  
Competitive environment: Dynamism, receptive, supportive environment on competitions at domestic and foreign contexts, etc  
Industrial Factor: Economies of scale and industry structure |

Source: Developed for this study from compilation of resources.
The particular interest of this study is investigating the influential factors affecting the internationalisation process of Malaysian SMEs in the manufacturing sector. From the analysis and results of the investigation, the next aim and main contribution of the study is to formulate a Malaysian model of SME Internationalisation.

The integrated framework drawn from the literature review is relevant for seeking in-depth knowledge about how Malaysian manufacturing SMEs in various industries internationalise and for understanding what influences their involvement with international activities. Because this integrated approach has not been previously researched, this study adopts a qualitative approach to explore the how and why of SME internationalisation in the Malaysia context. This framework will help to identify similarities and differences in the internationalisation process, so that the common themes and constructs can be analysed. This was a two-step process of data collection. First, was feedback from panel of experts, included policymakers, research institutes, academics, the Chamber of Commerce and government agencies, and second was in-depth interviews with SME owners/founders and managers whose companies are engaged with outward internationalisation.

2.8 Research Arguments and Research Questions

When comparing the literature review to the Malaysian research setting, four research arguments were raised and led to the development of four research questions. The arguments and the research questions are as follow:
2.8.1 Argument I: The Internationalisation Awareness

In order for a firm to internationalise, it needs to be aware of the market opportunities. Ellis (2000) claims that little is discussed about how and what means firms identify information and market opportunities. Based on the incremental internationalisation perspective, Cyert and March (1992) posit that the source of information is generated and processed within the firm. In contrast, within the network approach, Granovetter (1992) claims that information is embedded in the society from direct contacts with individuals within and outside the firm, and information is gained from first, people who are willing to share information and second, organisations and or institutions that can provide relevant information. Access to appropriate information can create strong international awareness which is an important driver for SMEs to accelerate their internationalisation process (Zucchella et al., 2007). Therefore, this leads to the first research question of this study:

**Research Question 1:**

How is awareness about firm internationalisation created among SMEs in various manufacturing industries?

2.8.2 Argument II: The Internationalisation Process

The internationalisation process can be identified from the dimensions and patterns of internationalisation. The three dimensions of the POM model (Chetty, 1999; Welch et al., 1988) were investigated. These include the operation modes to enquire how the Malaysian manufacturing SMEs internationalise; the usual practice is through exporting or subcontracting, which suggests that Malaysian SMEs may choose low commitment entry modes. However, some may decide on higher
commitment entry modes such as partnership or joint ventures. The second dimension refers to the selection of international markets, in relation to which foreign markets Malaysian SMEs enter, the number of markets they penetrate, and whether these are neighbouring or distant markets. Some Malaysian SMEs disregard psychic distance and have ventured farther afield than the nearby regions. The third dimension relates to sale of the products delivered abroad. Considering the range of different products delivered, SMEs experience dissimilarities in terms of standards, quality, policies and other requirements and procedures.

Since research on SME Internationalisation is relatively lacking within Malaysia, it is unclear whether the internationalisation pattern is similar to that of the incremental models, rapid models, network theory, resource-based view or international entrepreneurship theory. Which model best fits to explain the pace of internationalisation for Malaysian manufacturers?

The government of Malaysia supports SME international expansion and there is some evidence that the internationalisation process may rely on network relationships (Zain et al., 2006; Zizah et al., 2007a). Since networking affects the pattern of internationalisation it is important to discover how, and to what extent, networks assist the internationalisation process of Malaysian SMEs. It can be argued that having certain resources enables an SME to internationalise, but what kind of resources trigger the decision to internationalise? Furthermore, small firms are usually associated with being entrepreneurial, which can provide them with a competitive advantage, and this association or relationship needs to be investigated. Based on these arguments, the second research question of this study is:
Research Question 2:

How is the internationalisation process of SMEs in the various manufacturing industries best described? More specifically, what pattern and pace of internationalisation is followed? In addition, what mode of foreign entry, market selection and number of markets influence the process.

2.8.3 Argument III: Driving Forces for the Malaysian SME Internationalisation

Research evidence suggests that triggering or motivational factors lead to internationalisation. These can include both the motivational factors that trigger internationalisation and the impediments to internationalisation (Leonidou, 2004; Morgan, 1997). Anecdotal evidence suggests that factors within both domestic and global markets can drive internationalisation (Etemad, 2004c), and internal and external barriers can act as challenging forces for internationalisation (Fillis, 2002). Therefore, this study seeks to identify which these are driving forces for the internationalisation of manufacturing SMEs in Malaysia. This has lead to the third question of this study.

Research Question 3:

What driving forces influence the internationalisation process of Malaysian SMEs in the various manufacturing industries? More specifically, what motivates SMEs to internationalise and what impediments do they encounter in their internationalisation process?
2.8.4 Argument IV: Influential Factors Affecting Internationalisation Process

Based on the integrated conceptual framework, depicted in Figure 2-10, the internationalisation process of SMEs is influenced by the interrelated factors of motivation, firm specific, key personnel, external and industrial factors. Key personnel capabilities and their strong efforts for international expansion substantially affect internationalisation (Oviatt et al., 2004). The POM model (Chetty, 1999) includes the driving forces of firm competencies and decision-maker characteristics. The decision-maker characteristics are relevant to key personnel factors. Key personnel are the main driver for SME internationalisation and this is relevant to the decision-maker characteristics (Eyre et al., 1998; Zucchella et al., 2007). Therefore, it is pertinent to identify how key personnel and firm specific factors assist the drive for an SME to internationalise.

External and industrial factors are part of the influential forces that influence SME internationalisation. The external or environmental factors, such as international trade policy, government regulations and or competition (Etemad, 2004b; Lumpkin et al., 2005) may substantially influence the internationalisation process. Given the focus on industrialisation in Malaysia (Moha-Asri et al., 2002), industrial factors are also important to investigate. This leads to the last research question of this study.

Research question 4:

What factors affecting the internationalisation process of SMEs in manufacturing industries in Malaysia? More specifically, what firm specific factors and key personnel factors contribute to the internationalisation of the SMEs?
A summary of the existing research gaps identified in the literature and the research objectives formulated to address these is presented in Table 2.10.

**Table 2.10: Research Gaps and Objectives**

<table>
<thead>
<tr>
<th>Critical Theoretical Gaps</th>
<th>Research Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Need to empirically refine how SMEs identify foreign market information and how the CEOs/key managers are aware of the international opportunities (Ellis, 2000).</td>
<td>To identify what initiates internationalisation awareness among SMEs in the manufacturing sector.</td>
</tr>
<tr>
<td>Lack of adequate empirical evidence on dimensions and patterns of internationalisation that best explains the internationalisation process of SMEs in Malaysia.</td>
<td>To describe the internationalisation process by examining the dimensions, patterns and scopes.</td>
</tr>
<tr>
<td>Need to empirically examine the driving forces and identify the variables that affect the internationalisation process (Zucchella et al., 2007).</td>
<td>To identify the driving forces that foster and hinder the internationalisation process of the Malaysian SMEs.</td>
</tr>
<tr>
<td>Findings on influential factors such as firm factors (Bell et al., 2007), key personnel factors (Oviatt et al., 2004), and external and internal factors (Lumpkin et al., 2005), are incomprehensive.</td>
<td>To identify the other influential factors and the key drivers in terms of firm specific and managerial factors that influence the internationalisation process of the Malaysian SMEs.</td>
</tr>
<tr>
<td>Researchers have argued that the internationalisation process crosses diverse theories (Morgan et al., 1997; Welch et al., 1988), yet it is inconclusive (Etemad, 2004b), so an integrated approach is recommended (Jones et al., 2005).</td>
<td>To develop an integrated internationalisation model for Malaysian Manufacturing SMEs.</td>
</tr>
</tbody>
</table>
2.9 Chapter Conclusions

This chapter has reviewed literature pertaining to the internationalisation of SMEs and identified that many factors influence firm internationalisation. First, the chapter examined the application of internationalisation theories and models that cover the incremental and rapid internationalisation models, the network, resource-based and entrepreneurial approaches to internationalisation. The discussion outlined each perspective and provided evidence of their role in the internationalisation process. Next, dimensions of the POM model and ‘Five Patterns of Expansion’ were discussed. These included the factors influencing foreign entry modes, international market selection and industry characteristics. The forces that drive a company to internationalise, such as the motivating and hindering forces that are firm specific, or relate to key personnel or external and industrial factors, were also presented.

Reviews of recent articles from 2003 to 2006 helped investigate the integrated theories, themes and constructs applied in SME internationalisation research. The research gaps in the literature were identified and these helped clarify the research questions. The last section provided an integrated conceptual framework (Figure 2.10) and the themes and constructs (Table 2.9) relevant to this study. The next chapter discusses the research methodology and procedures employed to examine the four research questions.
3.1 Introduction

This chapter discusses the overall research design and methods adopted in this thesis. It begins with the research paradigm by outlining the ontology, epistemology and methodology. It provides justification for the interpretive-qualitative approach taken in the study and explains the two phases and techniques used in the interview. The process of data collection, coding and analysis is also explained. The chapter concludes by defending the research approach by describing the triangulation, reliability and ethical issues of the study. The overall research design and methods are illustrated below in Figure 3.1.

Figure 3.1: Overview of Chapter 3 - Research Methodology
3.2 Research Paradigm

The research paradigm, as applied among management and social researchers “reflects a basic set of philosophical beliefs about the nature of the world” (Ticehurst et al., 2000, p.25). The research paradigm is the perspective that a researcher takes in obtaining knowledge on a particular discipline at certain time. The underlying paradigm adopted in a study needs to be understood as it plays important roles in outlining the researcher’s perception of the world, what is considered the reality, how that reality can be understood and what methods are best taken to obtain further knowledge on that reality (Thomas, 2004).

Four philosophical branches are linked in order to ensure quality research, these are: the Ontology, Epistemology, Methodology, and Methods (Easterby-Smith, Thorpe, & Lowe, 2002). These four philosophical branches are often characterised and differentiated by the following questions:

- What is the nature of the social reality that needs to be addressed (*The ontological concept*)?
- What is the nature of the relationship between the individual, who they are and what can be known about a particular reality (*The epistemological concept*)?
- How can the researcher go about finding out what he or she believes can be known (*The methodological concept*)?
- What is the best technique to uncover the desired knowledge (*The methods concept*)? (Adapted from Easterby-Smith et al., 2002; Hesse-Biber et al., 2006).
The research paradigm and associated philosophical branches form a generally accepted model of how ideas link to one another, to form a conceptual framework so scientific research can be carried out (Denzin & Lincoln, 2000). This shapes the entire research process and gives direction to an appropriate research design, approach and methods (Gummesson, 1991). Therefore, the philosophical assumptions underlying the research paradigm must be understood and clarified before research can be conducted (Thomas, 2004).

3.2.1 Philosophical Assumptions on Ontology and Epistemology

The general philosophical concern about ontology and epistemology is over three issues: knowledge, reality and existence (Thomas, 2004). The ontology deals with how a researcher conceptualises the nature of the world’s reality when viewed for a particular purpose. Jankowicz (2000) suggests ontology forms the basic assumptions about the research, and is influenced by the researcher’s fundamental belief about the nature of being. Thus, the ontology represents the researchers’ fundamental beliefs and how these shape knowledge about specific matters.

On the other hand, the epistemology is the theory of knowledge (Easterby-Smith et al., 2002), and acts as the base for building knowledge on certain phenomena (Hesse-Biber et al., 2006). From a scholarly perspective, epistemology enquires into, firstly, the extent knowledge can be known with certainty; Secondly, the extent that knowledge differs from belief or opinion; and Thirdly, the extent to which appropriate methods can produce reliable knowledge (Thomas, 2004).
Consequently, the ontology and epistemology are associated with the researchers’ views on certain issues, how they acquire that knowledge, the sources of information and how information is gathered. These perspectives lead into the philosophical assumptions, methodology and methods.

### 3.2.2 Philosophical Assumptions on Methodology and Methods

Quite often, researchers are confused between the concepts of methodology and methods. Research methodology is the utilisation of approaches to enquiring into specific matters, while research methods are the techniques to gather data (Easterby-Smith et al., 2002). Hesse-Biber and Leavy (2006) argue that the ontology, epistemology, theory and method cannot be detached when doing research:

> “It is in methodology that theory and method come together in order to create a guide to, and through, research design, from question formulation through analysis and representation. Methodology is the bridge that brings theory and method, perspective and tool, together.” (Hesse-Biber et al., 2006, p. 21)

The literature classifies research methodologies as quantitative, qualitative or being of mixed approach and each is represented by distinctive techniques and tools (Cavana, Delahaye, & Sekaran, 2001; Guba & Lincoln, 1994; Hesse-Biber et al., 2006; Hussey & Hussey, 2003). Quantitative research is the systematic collection of numeric data that seeks to identify causal relationships and the results are presented with numbers, rates and percentages in the form of charts, table or graphs. Possible strategies can be experiments, quasi-experiments or surveys which are employed through self-completion questionnaires, structured interviews, structured...
observations and psychological tests where the researchers are not involved directly with the respondents (Cavana et al., 2001; Hair, Babin, Money, & Samouel, 2003).

In contrast, qualitative research emphasises the processes and meanings and involves non numeric data to provide a deeper understanding of the phenomenon within its context, and creates a strong relationship between the researcher and the phenomenon under study (Hair et al., 2003). Its strategies can be in the form of case studies, ethnography, action research, and grounded theory, while its methods are unstructured interviews, participant observations, and personal documents, such as diaries, letters, field notes and journals (Hesse-Biber et al., 2006). As a mixed approach, it can be a combination of quantitative and qualitative methodologies.

Constant debate about ontology, epistemology, methodology and methods in the extant literature indicates that how to carry out research has been of interest to many. According to some scholars the philosophical beliefs surrounding the research paradigm can be grouped as positivism, interpretivism or critical realism (Creswell, 2003; Guba et al., 1994; Sobh & Perry, 2006).

3.2.3 Positivism

Positivism views the world as external and objective to the researcher by arguing that people and things are alike (Ticehurst et al., 2000). The ontological assumptions of positivism are that the researcher and research subjects are not involved in direct contact. The epistemological assumption is that knowledge can be measured accurately and precisely, and researchers need to be disassociated from interfering with respondents perceptions, ideas and opinions (Thomas, 2004). The
methodological approach is to use deductive logic to test causal relationships and theories (Easterby-Smith et al., 2002; Ticehurst et al., 2000). The majority of the published research into SME Internationalisation has utilised positivist paradigm, by using hypothesis testing, large samples and quantitative approaches (Bell et al., 2007; Cho & Prasad, 2005; Knight, 2000; Leonidou, 1995a; Philip, 1996). Therefore, a study that explores humans as social entities does not fit with the positivist paradigm.

3.2.4 Interpretivism

Interpretivism views reality and knowledge as subjective and the researchers must have contacts with the researched subjects to obtain the reality and meanings of certain phenomena (Ticehurst et al., 2000). Therefore, its ontology assumes that the researchers’ knowledge of a particular subject relies on the perspective of the participants. The epistemology is that the knowledge gained needs to be interpreted (Hair et al., 2003). Investigations in this paradigm are within the qualitative approach and utilise inductive reasoning to produce rich data for theory building (Cavana et al., 2001; Easterby-Smith et al., 2002; Sobh et al., 2006). Lately, more SME internationalisation research has been conducted using qualitative approaches, such as case studies and interviews that involve small samples and non-numeric analysis (Chetty et al., 2004; Coviello et al., 1997; Phiri, Jones, & Wheeler, 2004). Critical Realism, the third paradigm accepts and contradicts some elements of both the above paradigms.
3.2.5 Critical Realism

Critical realism, the paradigm adopted in this thesis, adheres to two views. First, it acknowledges that reality is socially constructed with meanings given by the participants and interpreted by researchers; Second, it challenges the notion that reality is purely socially constructed and accepts that meanings are independent of direct contacts (Denzin et al., 2000; May, 2001; Thomas, 2004). The ontological assumption of critical realism is that reality is based on concrete facts and real, but that knowledge cannot be accessed directly (Easterby-Smith et al., 2002).

Miles and Huberman (1994) label critical realism as ‘transcendental realism’ and argue that knowledge within a social phenomena exists in people’s minds as well as in the objective world. Thus, events, experiences, structures and mechanisms can be interpreted using qualitative and quantitative methods of analysis (Miles et al., 1994; Sobh et al., 2006). Recent studies on SME internationalisation have combined qualitative and critical realism (e.g. Jansson et al., 2008; Knight, Madsen, & Servais, 2004; Zucchella et al., 2007). Table 3.1 as adapted from Sobh and Perry (2006) summarises the main differences between positivism, interpretivism and critical realism.
Table 3.1: Features of Positivism, Interpretivism and Realism Paradigms

<table>
<thead>
<tr>
<th></th>
<th>Positivism</th>
<th>Interpretivism</th>
<th>Critical Realism</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ontology</strong></td>
<td>Reality is real and apprehensible</td>
<td>Multiple local and “constructed” realities</td>
<td>Reality is ‘real’ but only imperfectly and probabilistically apprehensible</td>
</tr>
<tr>
<td><strong>Epistemology</strong></td>
<td><strong>Objectivist:</strong> Findings are true</td>
<td><strong>Subjectivist:</strong> Created findings</td>
<td><strong>Modified objectivist:</strong> Findings are probably true</td>
</tr>
<tr>
<td><strong>Common Methodologies</strong></td>
<td><strong>Experiments/surveys:</strong> Mostly concerns with testing of theory and verification of hypotheses</td>
<td><strong>Hermeneutical or dialectical:</strong> researcher is ‘passionate participant’ within the investigated world</td>
<td>Case studies and convergent interviews; Triangulation, interpretation is mainly qualitative, and also quantitative methods</td>
</tr>
</tbody>
</table>

*Source: Adapted from Sobh and Perry (2006).*

Based on the understanding of the research paradigm and its associated philosophical beliefs, the justification of the research paradigm adopted for this study is discussed next.

### 3.3 Justification for the Research Paradigm

Thomas (2004) argues that what governs the selection of a relevant paradigm and methods is the research problems and research questions. The aim of this research is to examine, *‘How Malaysian Small and Medium Manufacturing Enterprises (SMEs) internationalise and what affects the internationalisation process in various industries in Malaysia’?* Therefore, the nature of the investigation is descriptive rather than prescriptive and requires inductive reasoning rather than deductive logic. Thus, critical realism and a qualitative methodology are deemed most suitable for this research paradigm.
3.3.1 Selecting the Critical Realism Paradigm

Critical realism was chosen to provide a deeper understanding of the internationalisation process and the factors influencing SME internationalisation in the manufacturing sector. As illustrated in Figure 3.2, this investigation requires direct links to and interactions with the subjects through: 1) subjective and objective realities (ontology); 2) inductive logic to reasoning (epistemology); and 3) understanding via multiple realities.

Figure 3.2: The Implementation of Critical Realism Paradigm

Source: Adapted from Gamage, Cameron and Woods (2003)

3.3.1.1 Ontology: Subjective and Objective Realities

By investigating subjective and objective realities, the researcher can gain first hand insights into the subject matter. As Figure 3.2 shows the objective reality for investigating SME internationalisation in Malaysia includes the ‘hard elements’, such as the government’s blueprints, policies, and supports for SME development and international growth, as well as printed materials available in the public domain.
including internet. The subjective reality reflects ‘soft elements’, such as the perceptions, values, beliefs, practicality, true feelings and experiences.

The internationalisation of SMEs is complicated (Coviello et al., 1999; Dana, 2004) because the process itself involves many people and institutions. Therefore, researching SME internationalisation in the Malaysian context requires involvement from SME practitioners and supporting government agencies. So, subjective reality forms the main basis of the research. Research into this field requires multi-disciplinary knowledge of International Business, Entrepreneurship and Strategic Management (Jones & Dimitratos, 2004a), and the skills to obtain feedback from relevant groups of people such as policymakers, practitioners, researchers, academics, financial institutions, and the public.

Although studies and reports on SME development in Malaysia have been produced from time to time, they tend to seek for objective reality and use quantitative analysis (See for example: Malaysia NSDC, 2006; SMIDEC, 2004, 2006). While quantitative evidence satisfies the objective reality, it neglects the subjective reality that taps the richness of subjects’ experience and perceptions on the internationalisation process (Creswell, 2003).

3.3.1.2 Epistemology: Inductive Logic to Reasoning

This inductive logic and critical realism inquiry aims to ‘understand’ the process of SME internationalisation rather than ‘explain’ the phenomenon. Bjerke (2007) claims that the terms ‘understand’ and ‘explain’ differ greatly in inquiring knowledge:
“To ‘understand’ means to find out more details...to get access to subjective opinions...to get a picture of a larger context in which a phenomenon is placed...and to get a picture of relevant circumstances which have taken place earlier in a specific situation. Whereas...to ‘explain’ means to look for factual (objective and/or subjective) data and use a depicting language...to find cause-effect relationships...and to build models. As I see it, the crucial difference between explaining and understanding is that explaining sees language as depicting reality and understanding sees language as constituting reality!” (Bjerke, 2007, p.36)

Since the task is to understand the internationalisation process of Malaysian SMEs in the manufacturing sector, this research complies with ‘constituting reality’ and seeks information by interacting with practitioners to capture relevant interpretations. As mentioned in Chapter One, SME international development policy is mainly formulated by the Malaysian government and its agencies, and others only have small roles (Mahajar et al., 2006; Moha-Asri, 1999). This researcher assumed that involving the wider group of SME practitioners, academics and researchers would increase understanding about what is happening in SME international expansion. This approach acknowledges and accepts that there are multiple realities and including these improves understanding of the research matter.

Ultimately, this research intends to develop a comprehensive model of SME internationalisation within the Malaysian context to add to existing models. Critical realism is important for doing this as it addresses the real-life context by interacting directly with practitioners and understanding their motives, cultures, behaviour, attitudes and backgrounds. Marschan-Piekkari and Welch (2004b) and Peterson (2004) argue that researchers need to move beyond positivism and employ a richer, a more in-depth research approach (via the critical realism paradigm), qualitative methodologies, if they are to advance research into internationalisation.
3.3.2 Selecting the Qualitative Methodology

The choice of research methodology must be consistent with the ontological and epistemological stances (Thomas, 2004; Ticehurst et al., 2000). In this case, the subjective-inductive-critical realism paradigm matches the qualitative methodology. In gaining a deeper understanding on the SME internationalisation process, the researcher must be within the context, exploring and seeking to understand how and why the firms internationalise from the social actors’ own interpretation of their real life experiences. This enables the researcher to explore their feelings, attitudes, meanings, values and beliefs about the research topic (Cavana et al., 2001), and exploratory research, based on a qualitative approach, is recommended (Sekaran, 2003; Yin, 1994). Yeung (1995) argues:

“...the qualitative personal interview method performs its function as one of the best and most suitable methods in international business research in an Asian urban context” (Yeung, 1995, p.314)

3.3.2.1 Small Potential Respondents

The qualitative methodology is best suited when the possible respondents are small in number (Hesse-Biber et al., 2006). Malaysia has only a small number of active SME exporters. According to the National Development Council (NSDC) in 2006, of the total number of SMEs in all sectors (about 519,000) only 4,257 firms or less than 1% are active internationally. Of these internationally active SMEs, 2,452 firms (57.6%) are in the manufacturing sector, 1,728 firms (40.6%) are in the service sector, and 77 firms (1.8%) are in the agriculture sector. They are located in the small scale industrial areas, known as ‘Industri Kecil Sederhana’ (IKS) and scattered
all over Malaysia (NSDC, 2006). Table 3.2 presents the profile of active SME exporters in Malaysia for 2006.

Table 3.2: Profile of Active SME Exporters in Malaysia for 2006

<table>
<thead>
<tr>
<th>Active Exporters in Sector</th>
<th>% of Exporters</th>
<th>Number of Exporters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>57.6%</td>
<td>2,452</td>
</tr>
<tr>
<td>Service</td>
<td>40.6%</td>
<td>1,728</td>
</tr>
<tr>
<td>Agriculture</td>
<td>1.8%</td>
<td>77</td>
</tr>
<tr>
<td><strong>Total number of active exporters</strong></td>
<td><strong>100%</strong></td>
<td><strong>4,257</strong></td>
</tr>
</tbody>
</table>

Source: Adapted from National Development Council (NSDC, 2006, p.26)

Consequently, since the target population in this research is the internationalised manufacturing firms, rather than individuals units of analysis, the potential pool of respondents is indeed small.

3.3.2.2 Lack of Published Qualitative Research within This Issue

For the last three decades, the International Business (IB) or related subjects fields of International Entrepreneurship (IE) and International management (IM) have been dominated by quantitative methods (Peterson, 2004) favouring the positivist paradigm. In the SME internationalisation domain, many researchers employ quantitative methodologies to test hypotheses for causal effects on large samples (Autio et al., 2000a; Bell, 1997; Cho et al., 2005; Mockaitis et al., 2006).

who employed quantitative methodologies was 63.5%, 8.5% adopted qualitative approaches and 28% were conceptual papers. Table 3.3 provides a summary of the published research.

Table 3.3: Qualitative, Quantitative and Conceptual Publications

<table>
<thead>
<tr>
<th></th>
<th>Qualitative (Interpretivism or Realism)</th>
<th>Quantitative (Positivism)</th>
<th>Conceptual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Welch &amp; Welch (2004) (In 3 IB journals: 1990 - 1999)</td>
<td>6%</td>
<td>75%</td>
<td>19%</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>8.5%</strong></td>
<td><strong>63.5%</strong></td>
<td><strong>28%</strong></td>
</tr>
</tbody>
</table>

*Source: Adapted from (Andersen et al., 2004; Welch et al., 2004)*

Following this obvious publication gap between the three paradigms, Peterson comments:

“In the past 30 years, quantitative methods have dominated the field of international management. I would argue that the inclusion of qualitative methods such as interviews, ethnography and grounded theory would add to our understanding of international management, while also being a cross-validation of our quantitative insights”. (Peterson, 2004, p.25)

Although the positivism paradigm (quantitative methodology) provides rigorous statistical evidence, it doesn’t fully depict complex phenomena such as the SME Internationalisation process (Coviello et al., 1999; Zalan et al., 2004). Marschan-Piekkari and Welch (2004b) argue that the limitation of the qualitative research, in particular in the SME internationalisation issue is mainly due to the assumption that this methodology is not scientifically favoured, and less likely to receive support for publications. There is also an argument that case study and interview methods are exploratory-based and contribute to ‘descriptive’ rather than ‘theoretical’ input.
(Aulakh & Kotabe, 1993, as cited in Marschan et al., 2004). However, calls for more qualitative research employing the interpretivism and realism paradigms have intensified.

Interviews and case studies have been used to research internationalisation (Chetty et al., 2004; Coviello et al., 1997; Phiri et al., 2004), and some have employed mixed methods, for example, case studies, interviews and surveys (Fenwick, Edwards, & Buckley, 2003; Jansson et al., 2008). This shows that inductive reasoning and critical realism paradigms have emerged as applicable research designs in the SME internationalisation domain. Although qualitative research into the SME internationalisation process is starting to emerge, little has been directed toward developing countries or emerging markets (Bell & Young, 1998; Coviello et al., 1999; Prashantham, 2004). Thus, it is timely to test the transferability of western models and or develop a model for Malaysia (Jones et al., 2004b).

3.3.2.3 Lack of Qualitative Evidence within the Malaysian Context

Recent research in Malaysia has included some qualitative explorations of SME international activities. For example, SMEs and industrial linkages programmes (Mori, 2005), the multinational enterprises (MNEs) internationalisation strategies (Sim, 2005), the impact of network relationships on SME Internationalisation process (Zain et al., 2006), the internationalisation of the furniture industry (Andersson et al., 2006), and the influential factors to SME Internationalisation (Zizah et al., 2007b). Yet, other issues, such as the selections on foreign entry modes and markets, motives for and setbacks to internationalisation and specific factors affecting internationalisation need further investigation. Malaysian
entrepreneurs and policy makers need more rigorous data and findings to assist SME development and expansion into the international arena.

3.3.2.4 Malaysia Needs Its Own Model (through our own lens)

Currently, Malaysian SMEs appear to pursue Western internationalisation models, especially the traditional models. This is based on the four phases of its entrepreneurial-industrial expansion, such as, ‘Start-up’, ‘Growth’, ‘Expansion’ and ‘Maturity stages’ (please refer to Chapter 1) (SMIDEC, 2002, p.55). Although these Western theories (on SME internationalisation) have been successfully applied elsewhere, they have not yet been proven as most appropriate for Malaysia. The appropriateness of these theories within the Malaysia context should be investigated.

Further, it is difficult to understand the internationalisation process within Malaysia’s context through the lenses of others. Western internationalisation models may not fully explain the phenomena, as Malaysian practices, different values, beliefs, politics, and cultures (Othman et al., 2006) apply. Crick and Dana (2004) have identified differences in entrepreneurs’ perceptions towards internationalisation from sub-cultures in the UK and Singapore. Singapore is a useful benchmark for comparison since the country is close to Malaysia and was a Malaysian state before it opted for independence, so the values and cultures in Malaysia and Singapore are similar.
3.3.2.5 The Malaysia Reality

In conjunction with the above discussion, the cultural heritage of Malaysia is another reason for taking a critical realism-qualitative methodology. Malaysia’s cultural heritage, including the values, beliefs, behaviour, customs and attitudes (Griffin et al., 2005) are unique due to the different demographic backgrounds of its people. Malaysia is a country of ‘high-context cultures’ (Hall, 1976, as cited in Griffin et al., 2005). This means interpersonal relations are highly valued when making business arrangements because Malaysians prefer to deal with “people whom they know, like and trust” (Adler, 2004, p.37). Based on Hofstede’s (1983) assessment, the country is clustered within a large power distance, high collectivism, small uncertainty avoidance, and femininity culture. This suggests Malaysians display inequality between superiors and subordinates, believe in loyalty and team work, tend to be more open to change and new ideas, and place more emphasis on relationships and quality of life (summarised from: Griffin et al., 2005; Wild et al., 2003).

Due to this emphasis on relationships, trust, loyalty and flexibility, this researcher believes that personal with ‘the source of social reality’ (Hesse-Biber et al., 2006) is critical to obtain substantial descriptions of the SME internationalisation process in Malaysia. For this purpose, the sources were SME practitioners, policymakers, academics and researchers and data was obtained through in-depth interviews. Since management practices and politics are entangled in Malaysia (Othman et al., 2006; Yeung, 2004a), different views from a real life context are likely result in multiple realities, as identified by Denzin and Lincoln (2000). This may generate different empirical evidence to compare with the existing theories.
3.3.3 Summary of the Adopted Research Paradigm

In summary, this study takes a critical realism and qualitative research approach. The ontological assumption of subjective-objective reality fits with the researcher’s fundamental belief that hard and soft elements pertinent for acquiring knowledge. The epistemological assumption complies with inductive reasoning, so that reliable knowledge, as distinguished from belief or opinion can be secured (Thomas, 2004). A qualitative methodology of interviews was selected and is justified by the small number of potential respondents, the lack of published qualitative research about the topic, a lack of qualitative evidence within the Malaysia context and the need for a model suited to Malaysia.

3.4 Research Design

The research design basically is the overall structure and framework guiding the investigation process, especially for data collection and analysis (Bryman & Bell, 2007). The selected research design must be within the chosen paradigms and methodology to protect the quality and validity of research (Cavana et al., 2001). Selecting an appropriate research design is crucial as this argument by Thomas (2004) demonstrates:

“Research design involves deciding how the strategy and methods will be implemented in the context of a specific enquiry, indicating more precisely where, when and how data will be obtained and the method to be used to analyse and interpret those data”. (Thomas, 2004, p.20)

The previous discussion provides justification for the two-phase research design of this study. This design is further outlined in the following eight-step process, illustrated in Figure 3.3. The steps involved in the research include:
1) Defining the research problem and research questions (identified in Chapter 2). This resulted in selecting the research paradigm and methods and designing the semi-structured interview protocol for the preliminary survey;

2) Conducting Phase I of the study by distance telephone interview with a panel of experts. This involved searching, selecting and contacting relevant experts, and refining the semi-structured interview guide for Phase II;

3) Conducting the in-depth interviews. This involved preparing a fieldwork protocol, selecting and contacting the firms, scheduling the interviews and follow-up contact with owners or key personnel of the multi-industries respondents;

4) Transcribing and translating the interviews;

5) Validating the transcripts by sending them to selected participants;

6) Managing interview scripts, coding these for themes using NVivo and Excel. Different approaches to analysis were used to see whether the themes corroborate one another for the purpose of triangulation as recommended by Silverman (2001);

7) Analysing interview scripts, employing qualitative methods for thematic analysis and quantitative methods for basic statistical analysis; and

8) Reporting and discussing the evidence relating to the research questions.
Consequently, this design reflects the purpose of the research, the type of investigation, the extent of researcher interference, the population under study, the research setting and the time horizon of the study (Cavanaugh et al., 2001).
3.4.1 Designing the Semi-structured Interview Guide

The interview process for telephone and face-to-face interviews was guided by an ‘interview guide’ (Flick, 2002), which is pertinent for qualitative interviewing as it lists a set of open-ended questions on specific topics (Bryman et al., 2007). An interview guide can assist a researcher in several ways. It can steer the researcher towards the focus of the study and show that the researcher is skilful (Meuser & Nagel, 1991). It gives the researcher the flexibility to probe further on the respondents’ responses (May, 2001) and the freedom to deliver queries to the respondents appropriately (Hair et al., 2003). More importantly, it ensures and sustains the standardisation and comparability of the research (May, 2001).

The interview guides contain specific questions on a range of issues regarding SME internationalisation in Malaysia. The guide was designed in two languages; English and Bahasa Malaysia. Two sets of interview guides were designed, with one for each of the two phases of data collection. The difference was in the depth and breadth of the questions.

3.4.1.1 Phase I Interview Guide

The Phase I interview guide was designed in a semi-structured interview format as is appropriate for inductive exploratory methods (Merriam, 2002; Yin, 1994). Though uncommon in business research (Bryman et al., 2007), this initial stage was conducted by telephone because distance affects time and cost. Since the targeted experts were based in Malaysia, the Phase I interview guide was designed for simplicity and included the following questions:
a) Why do SMEs go international?
b) How do SMEs know about international opportunities?
c) What modes do SMEs chose to internationalise?
d) Which markets do SMEs select to internationalise?
e) What are the barriers to internationalisation? and 
f) From your view, what and who influence SMEs to go international?

The experts had had no difficulty in responding to the interview questions, as they were very straightforward.

3.4.1.2 Phase II Interview Guide

The Phase II interview guide was designed based on the feedback and opinions from the panel of experts (the Phase I). The interview guide was specifically designed for in-depth interviews with the owners and/or key personnel of SMEs engaged in international activities. Therefore, it was more detailed, but with some flexibility as “questions may not follow on exactly in the way outlined” (Bryman et al., 2007. p.474). As recommended by Cassel and Symon (1995), the interview guide was provided to the respondents prior to the scheduled interviews to help them be better prepared. Table 3.4 shows the ‘initial interview guide’ designed for Phase II (Please refer to Appendix 2 for detail).
### Table 3.4: The Phase II In-depth Interview Guide

<table>
<thead>
<tr>
<th>A: Background</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Could you tell me briefly about your firm?</td>
<td></td>
</tr>
<tr>
<td>• When was the first time your firm went international?</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>B. The motives/reasons for the firm to internationalise</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Could you tell me the reasons why you decided to internationalise your firm?</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>C. Awareness of The International Opportunities</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• How did you learn of the international opportunities? To what extent do these sources influence your firm’s decision to go international?</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>D. The outward internationalisation process of the firm</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Could you tell me the process of your firm’s internationalisation?</td>
<td></td>
</tr>
<tr>
<td>(For example when, where, what, who, and how that involve your firm’s decision to internationalise.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>E. Firm Factor</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• What is/are the strengths of your firm that enabled it to internationalise?</td>
<td></td>
</tr>
<tr>
<td>• What are the barriers or difficulties faced by your company in going international?</td>
<td></td>
</tr>
<tr>
<td>• Who (within or outside the firm) is/are the most influential to bring the firm into international markets?</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>F. External Factors</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Could you tell me what are the external factors that influenced the firm to go international? Are there other factors?</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>G. Top Manager’s Characteristics</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• In your opinion, what are the owner/top management characteristics that eased the internationalisation process?</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>H. Respondent Profile</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Name &amp; Position;</td>
<td></td>
</tr>
<tr>
<td>• Year of service with this firm &amp; Length of working experience;</td>
<td></td>
</tr>
<tr>
<td>• Education &amp; International exposure;</td>
<td></td>
</tr>
<tr>
<td>• Personal goal &amp; Vision;</td>
<td></td>
</tr>
<tr>
<td>• Gender &amp; Age</td>
<td></td>
</tr>
</tbody>
</table>
During the in-depth interview process the researcher accommodated to the respondents based on things said by the respondents. All the questions were delivered and when required were rephrased to have similar meanings and suit the respondents.

3.5 Data Collection Methods

According to Merriam (2002) the techniques for collecting data for qualitative research included interviews, observations and documents. All methods were used to understand the SME internationalisation process used by Malaysian firms. In addition to semi-structured interviews, documents were collected for analysis, observations were made at the company locations and field notes were taken.

3.5.1 Interviews

As recommended by May (2001) interview methods in qualitative research are usually in the formats of unstructured and semi-structured, and this current research employed both. Interviews were chosen because they allow the researcher to gain insights into respondents’ perceptions, opinions, experiences, attitudes and views. This approach also allows understanding of the emotions and feelings of the respondents, which Ticehurst et al. (2000) claim assists in interpreting their rich thoughts on issues. Two interview strategies, telephone interviews (Phase I) and in-depth interviews (Phase II), were utilised.

Thomas (2004) suggests interview responses are wider because researcher has the capacity to deal with complex and sensitive topics and better control the responses.
The telephone interview is the fastest means of conducting a survey if the researcher can persuade the potential respondents to participate, and it is the most economical if distance and time matter (Wilkinson & Young, 2004). The disadvantage is the researcher is unable to observe the visual expression and needs to rely on the intonation of their voice. The face-to-face interviews cater for a more in-depth interview and is the most practical means for dealing with complex phenomena, such as the internationalisation process of SMEs. A researcher can observe gestures and facial expressions made by the respondents, which allows a deeper understanding and interpretation (Hesse-Biber et al., 2006).

Using multiple sources of data supports triangulation in data collection and helps give the research credibility by checking the reliability and validity of the information obtained (Flick, 2002). A systematic design makes it possible for the research process and findings to be applied by others in different contexts and settings (Bryman et al., 2007). The in-depth interviews provided the opportunity to seek for further clarification and elaboration on the answers given. The interview helps develop a deeper rapport with respondents (Daniels & Cannice, 2004). And the researcher also discovered unexpected responses and insightful information from the respondents.

The in-depth interview process followed the steps advised by Thomas (2004, p.167-170) and Daniels and Cannice (2004, p.205-6). The flow of the interview process is outlined in Figure 3.4.
The above steps facilitated the interview process. Generally the questioning followed the indicated sequence, although in some cases they were adjusted for convenience and to ensure a comfortable atmosphere. As the in-depth interview respondents hold important positions in their firms and are deemed key personnel, the interview needed to be convenient for them. This also was more likely to encourage the cooperation and willingness to discuss their views on the themes related to their situation. In addition, the more comfortable respondents feel, the more likely they are to elaborate their answers and speak freely on the research topic.
(Wilkinson et al., 2004; Yeung, 1995). The key personnel also held the authority to provide the firm’s documents to the researcher as additional supporting information.

3.5.2 Relevant Documents

Documents applicable to quantitative and qualitative approaches to research are published and unpublished printed materials, such as company reports, memos, letters, government reports, e-mail messages, faxes, visuals and newspaper articles (Silverman, 2001). The main advantage of documents is their availability and constancy of data, as ‘they already exist’ and can provide relevant and important insights into the researched phenomena (Merriam, 2002). For research quality assurance, documents must meet four criteria:

- **Authenticity.** Is the evidence genuine and of unquestionable origin?
- **Credibility.** Is the evidence free from error and distortion?
- **Representativeness.** Is the evidence typical of its kind, and if not, is the extent of difference known?
- **Meaning.** Is the evidence clear and comprehensible? (Scott, 1990, as cited in Bryman et al., 2007, p.555).

Documents, such as company profiles, product descriptions, powerpoint presentations, brochures and pamphlets, although not available from all companies, were obtained where possible. Some companies, particularly those in the food and beverages, herbal and agro-based industries, were kind enough to provide samples of their products to the researcher.
3.5.3 Convenient Observations

Thomas (2004, p.172) states that “If ‘actions speak louder than words’, then it seems that ‘observations speak louder than self-reports’”. Observation is gathering data by seeing or witnessing people’s behaviour without their knowing (Thomas, 2004) and can range from participating to merely observing the respondents’ social behaviour (Ticehurst et al., 2000). They suggest that an interviewer can observe situations that interviewees have described and look for inaccuracies or distortions in actual events; the researcher can also observe events that interviewees may be unable or unwilling to share because it would be insensitive, impolite, or impolitic to do so.

Observing interviewees’ behaviours and actions helps the researcher to answer descriptive research questions, to build theory, or to generate or test hypotheses (Hair et al., 2003). And this technique can enrich interpretations, particularly in qualitative research (De Geer, Borglund, & Frostenson, 2004):

“We use these observations as an additional source of information in our interpretation, and they also give us a chance to make the presentation more colourful and hence give reader a better understanding of the changes in everyday life. We focus on observations that can be crucial for interpreting value systems. We look for symbols of, for example, organisational culture power structure and identity. Observations give us impression that cannot easily be obtained through interviews and documents”. (De Geer et al., 2004, 331-2)

This researcher observed what was going on around her whenever and/or wherever convenient during the in-depth interviews phase. For instance:

- **The setting**: Many interviews were conducted at the interviewees’ premises so observation of the settings could be made. The appearance of the settings
would physically imply whether the settings might stimulate or discourage the internationalisation of a firm;

- *The atmosphere*: By observing the interpersonal relationships amongst the employees, (i.e. the way they communicate, the language they use to communicate, how they entertain guests, etc) could mirror their preparedness for internationalisation; and

- *The interviewers-participants*: The observations made on the interviewees included identifying their position and role, gender, age and title, and their making-decision roles for the firm to internationalise, their attentiveness toward internationalising the firm (i.e. self-preparation such as education, personal visions and goals) and their interpersonal and management skills.

Although observation is a simple method for gathering data, it still requires “*precision, painstaking attention to detail, and patience*” to pursue the method (Ticehurst et al., 2000, p.125). The observations made were recorded in the field notes.

### 3.5.4 Field Notes

Field notes is a data collection method to record the researcher’s impression and thoughts throughout the in-depth interview process (Bryman et al., 2007). In addition, field notes were written following the interviews and while listening to the recorded interviews. Notes on the researchers first impressions were made at the initial telephone conversation that was made to invite respondents participation and notes were also made regarding the researcher’s impression of the company. This included, who the researcher talked to, the date and time of conversations, the
responses received and the appointments made. This allowed the researcher to be better prepared to relate to the key personnel during the interview sessions and the field notes were subsequently found to be rich source of complementary data.

3.6 Data Collection Process

This section describes the data collection procedures. The procedures for the two-phased approach include the process of identifying and approaching the respondents, the units of analysis and their profiles, the respondents’ profiles, the interview schedules and the experience of the fieldwork and conducting the in-depth interviews.

As described earlier, this research involved two phases of data collection with interviews as the research technique. Due to different purposes and locations, the interviews took a different format:

1) Phase I, was the exploratory survey of experts and this was conducted by distance telephone interviews;

2) Phase II, was the in-depth interviews and these was used for the main study.

3.6.1 Phase I: Exploratory Experts’ Survey

The Phase I, the exploratory survey of experts discusses the selection of expert panel, the panel members’ profiles, the process of the distance telephone interviews, and the method of analysis. The first phase of the study used a modified Delphi technique to obtain opinions from a panel of Malaysian-based experts. The Delphi technique is defined as “a method of structuring a group communication process so
that the process is effective in allowing a group of individuals, as a whole, to deal with a complex problem” (Linstone & Turoff, 1979, p. 574). Therefore, to gain a broad understanding of the issues Malaysian businesses face when internationalizing, experts’ opinions were sought. The Delphi technique is recommended as the best method for getting structured and systematic feedback on complex issues (Dunham, 1998; Lindqvist and Nordänger (2007), such as the SME internationalisation process. Despite this benefit, the Delphi technique has not been utilised in the international business research (Czinkota, Johanson, and Ronkainen, 2002), even though experts’ opinions offer significant information, especially in developing public policy.

The data were obtained during September and October 2005 via distance telephone conversations because the researcher was based in Australia. As the Expert Panel is supposed to provide “a source of direct information” (Sekaran, 2003, p.222), therefore, it was important to choose appropriate members, for as Dalkey and Helmer (1963) point out, the experts need to have the following criteria such as highly knowledgeable on the subject matter and their professions and positions need to reflect their expertise. The experts and their affiliations were identified from the internet and through personal contacts. Thirty experts were approached by email or telephone and invited to take part in the study. Follow-up letters that outlined the purpose of the study, listed the questions and requested written consent were sent to those who agreed to take part in the study. Sixteen agreed to participate; fourteen were interviewed by telephone and two responded by email.
The semi-structured telephone interview lasted from 30 to 45 minutes. The information obtained from the telephone conversations was hand recorded onto a pre-formatted form. After each interview, the information was immediately checked, and further additions or interpretations were added while the content of the conversations could still be recalled. This precaution ensured relevant information was not overlooked.

Once the responses were typed, the data were placed into appropriate themes using a word processor. Then the data was analysed manually. The themes and indicators were calculated based on frequency counts, which were then converted into percentages. This helped to identify the most influential factors influencing Malaysian SME’s internationalisation. The preliminary findings provided some important insights into the area of study and facilitated refining the interview guide for the next phase of data collection, the in-depth interview.

Conducting the distance telephone interviews was an interesting experience. For example, some experts were ‘surprise’ knowing that the phone call was from Australia; they expressed concern over the cost and wanted to give as much information as fast as they could. A few experts asked about the weather, food, places to visit, the cost of living and about the life in Australia. Some even enquired about potential colleges or universities for their children. Overall, these experts were willing to share their views and expertise on Malaysian SME internationalisation.
3.6.2 Phase II: The In-depth Interviews

The Phase II of data collection was conducted in December 2005 and January to February of 2006. The purpose of the interview was to explore SME internationalisation processes within the Malaysian manufacturing sector and two units of analysis, the industry and individual, were recognised.

1) Industry: An internationalised firm is a Malaysian manufacturing SME that is currently engaged in the outward internationalisation process located within the central region of Malaysia (Selangor and Kuala Lumpur) not considering the foreign mode entry taken and markets ventured.

2) Individual: A key member of the internationalised SME manufacturing firm who had the authority to provide information on the firms’ internationalisation process. These respondents ranged from the owner, chief executive officer (CEO), and or a key executive, such as the Marketing Manager, as recommended by Welch et al., (2002).

Consequently, in defining the two units of analysis it is essential to understand the concept of population, which is “the set of entities from which the research sample is to be drawn” (Eisenhardt, 1989, p.537). At Phase II, only entrepreneurs including owners/founders and key managers within specific manufacturing industries were involved as the research population. Similar to a quantitative approach, the qualitative researcher needs to describe, define and justify issues such as sampling, settings and characteristics of the sample (Zalan et al., 2004).
3.6.2.1 Sampling Frame

The sampling frame in qualitative research is often a combination of convenience sampling, theoretical sampling and purposive sampling. The convenient sample is “one that is simply available to the researcher by virtue of its accessibility” (Bryman et al., 2007, p.197). A theoretical sample refers to “seeking samples of population, events, activities guided by his or her emerging (if primitive) theory” (Strauss, 1987, p.16 as cited in Yeung, 1995, p. 326). Purposive sampling on the other hand, implies that respondents are chosen for a particular reason and the range of those are as outlined by Cavana et al., (2001) and shown in Table 3.5.

Table 3.5: Purposive Sampling Characteristics

<table>
<thead>
<tr>
<th>Purposive Sampling</th>
<th>Description</th>
<th>Advantage</th>
<th>Disadvantage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Judgement sampling</td>
<td>Subjects are selected on the basis of their expertise in the subject investigated</td>
<td>Sometimes the only meaningful way to investigate</td>
<td>Generalisability is questionable; not generalisable to the entire population</td>
</tr>
<tr>
<td>Snowball sampling</td>
<td>Initial sample is identified, then more subjects are selected from referrals</td>
<td>Useful when subjects have required characteristics but are hard to find and contact</td>
<td>Not normally generalisable</td>
</tr>
<tr>
<td>Quota sampling</td>
<td>Subjects are conveniently chosen from targeted groups according to some predetermined quota/number</td>
<td>Very useful where minority participation in a study is critical</td>
<td>Not easily generalisable</td>
</tr>
</tbody>
</table>

Source: Adapted from (Cavana et al., 2001, p.267)

The companies were selected as a purposive sample and interviews were confined to using key personnel as the informants. In addition, snowball sampling was used. This is where individual informants refer the researcher to others as potential informants. The snowball sample emerged during the in-depth interview sessions. Apart from the purposive sampling, theoretical sampling was substantial as this
study partially adopts grounded theory as recommended by Glasser & Strauss (1967). According to Yin (1994), theoretical sampling is based on replication logic aimed at two purposes; to predict similar results for the purpose of a literal replication, and to produce divergent results for a theoretical replication. As Eisenhardt (1989) points out, choosing theoretical samples is likely to replicate or extend emergent theory.

Although companies from within Malaysia were targeted to achieve purposive and theoretical samplings, this can be a challenge (Welch et al., 2002) because respondents involved busy key personnel of various industries. Each industry was represented by multi companies in a technique referred to as ‘multi-case sampling’ (Miles et al., 1994, p.29) and the use of ‘embedded multiple-case designs’ as recommended by Yin (1994, p.39).

Multi-industry was preferred term of designation for the interview methods; multi-industry was adopted so that the findings could be more compelling and the study would be more robust as recommended by Yin (1994). Although multi-industry sampling has its strength the study needs to be carefully planned and therefore it was guided by the research questions and conceptual framework as suggested by Miles and Huberman (1994). To assist the sample-screening process, a selection criterion was designed.
3.6.2.2 Selection Criteria

Based on the definitions for internationalisation and SMEs that this study adopted (described in Chapter 1 and 2), the respondents were targeted based on the following criteria:

a) The SME firm was a Malaysian-based manufacturer, currently engaged in international activities;

b) The SME firm was registered under SMIDEC and MIDA, the two main agencies that link SMEs and industrial development;

c) The SME was listed in the Malaysia External Trade Development Corporation (MATRADE) and the Federation of Malaysian Manufacturers (FMM) directories; (These two directories provide up-to-date details of Malaysian companies involved in international activities. Applying both directories is useful for cross checking the potential SME company to ensure triangulation and therefore validity of the results)

d) The SME employs less than 300 employees;

e) The SME is located in the SMI industrial sites in Selangor and Kuala Lumpur Federal Territory (refer to the location map in Appendix 1).

These criteria provided the guideline for pre-screening suitable firms before they were approached and asked to participate.

Phase II data was not collected until ethics approval from the Murdoch University Ethics Committee was obtained and a consent letter from Universiti Kebangsaan Malaysia (the researcher’s employer) was provided. Before departing for fieldwork
in Malaysia the researcher made initial contact with several Malaysian government agencies, such as the SMIDEC, MATRADE and MITI Malaysia. The purpose was to obtain information on upcoming seminars or business-matching programmes for SMEs, as well as request an updated list of exporting SMEs. Two seminars, held simultaneously in Kuala Lumpur on the 5th December 2005 were attended. One was conducted by MATRADE and the other one was the APEC summit. Pre-networking’ contacts were initiated at these seminars with some internationalised SME owners and/or key executives. In addition, the MATRADE export directory of 2004/2005, which lists the Malaysian exporters, and the Federation of Malaysian Manufacturers (FMM) 2005 directory, were acquired to facilitate selecting companies from each of the specified industries.

3.6.2.3 Gaining Access

Yeung (1995, p. 316-7) claims that gaining access to organisation is ‘a perennial problem’ in research into business entities, as much depends on the willingness of individuals and ‘the gatekeepers’. This is particularly so in Malaysia (Edwards, Ahmad, & Moss, 2002), if it involves a student-researcher. Many organisations are not keen to have an outsider visit their premises, unless they are referred by someone known to them, or a third party has recommended they meet with the researcher. In addition, public perception of academic-research is low as many people assume that the research findings do not make contributions to social and economic development (Rafidah, 2007). Furthermore, a qualitative approach is not a favoured method of doing research in developing Asian countries and so respondents are less likely to be familiar with this approach. They are more familiar with the empirical findings on internationalisation that rely on quantitative-questionnaire surveys (Yeung, 1995).
Many phone calls were made to the selected SME firms to acquire interview appointments. There were mixed reactions when trying to convince some ‘gatekeepers’ or key executives to grant an appointment. Some ‘gatekeepers’ simply passed the phone calls to the ‘requested’ people, others made it so difficult it was not possible to pursue an appointment. Some key executives were very willing to be interviewed, whereas others were quite reluctant and requested a consent letter and written request be forwarded to the company for further consideration. For the ‘willing’ firms, a letter from the researcher outlining the purpose of the study, and support letters from Murdoch Business School and the Murdoch University Ethics Committee assuring confidentiality were delivered at the appointed meeting. The semi structured interview guide, designed for the in-depth interviews (Phase II) was also provided at this time and later used to direct the interviews.

Some of the reasons for participating in the study are described here. This was thought worth explaining as it may assist other researchers conduct in-depth interview research in Malaysia. The reasons given by respondents for participating included:

- **Previous connection**
  "...because of my connection with UKM...my first degree was from the Faculty of Humanities and Social Sciences, and my MBA with your faculty (Faculty of Economics and Business) and I still have good relationship with your colleague, so I am willing to be interviewed” (A CEO in Electrical & Electronics Industry)

- **Reaching to authority**
  "...I don’t speak good English and I understand a little bit of Malay Language, but I am willing to share my experience with you because I want..."
you to tell people up there [the authority] about my problem” (An owner of a firm in Agro-based Industry).

- Reference from someone
  “...Since you were recommended by my friend, actually my co-partner, I feel shy to reject you [my request for an interview]. He called me already and mentioned about you...So, when you called...I just accept to be your respondent” (A CEO in Furniture Industry).

- Respecting People
  “...When I received your call, I didn’t know that you’re a lecturer, I thought you were a student, doing some research... but...out of respecting people...when I respect your call, I have to be here. I told my secretary, I am expecting a ‘girl’ from UKM at 2 o’clock, I didn’t know you are a grown-up woman” (A CEO in Machinery & Equipment Industry).

- Courtesy and Means of Communication
  “...You know...to penetrate into the Chinese SMEs is difficult...for Malay researcher...I could say you are lucky! If it is not for your good command of English and manner, I would have never allowed you to enter my firm” (A CEO in Machinery & Equipment Industry).

- Social Concern:
  A veteran Malay CEO told me to change the subject of my study, from focusing on the SME internationalisation, to ‘solving problems of the shrunken moral of the Malay youths – who prefer loaf around rather than do productive deeds’. As he commented:

  “...what is internationalisation? Change your topic. You should be more concerned about our youths, the Malay, their moral is deteriorating...they don’t bother to study...do research to find solutions”! (A CEO in Electrical & Electronics Industry)

Those respondents who were willing to participate were also interested in the value of the study to Malaysia. For example, during the greeting, a CEO asked unexpected
and abrupt question as this “Why should I answer your questions?” (A CEO in Machinery & Equipment Industry). In response to this, my impromptu answer was:

“...because your company bears a successful name abroad, and I would love to listen to your secret of success so I can share with others, (for example, my students and other SMEs when I present my report”)

These examples demonstrate that respondents may participate for a range of unexpected as well as expected reasons. While some respondents are encouraging, others are less so rather than be discouraged, the researcher needs to spend more time establishing rapport.

Once interviewing began, the respondents recommended other contacts, so more internationalised SMEs were approached. Using in-depth interviews not only allowed the researcher to talk to the ‘right person’ (the key executives) and gain their opinions and experiences on SME internationalisation; it also prompted respondents to recommend their associates participate in this study. According to Wilkinson and Young (2004) this is an example of snowball sampling.

Although the interview was guided by the semi structured interview guide, the actual conduct of interviews became more like a sort of conversation between two professionals (Yeung, 1995). The first few interviews were painstaking events since the researcher tried to follow the interview guide strictly, which was inappropriate. Later on, the interview guide questions were treated more flexibly. The same questions were asked in different manners using varied phrases to allow for further probing. Often the conversations were diverted from the interview guide when the respondents raised interesting issues, such as political or business environment
issues. Since the intention of the interviews was to gain deeper understanding on SME internationalisation, these issues were included as they help interpret the findings.

3.6.2.4 Interview Profiles

The interview profiles present facts in sequence starting from source of information, interview location, length of the interview, and recording method. Of the 54 companies, half (27) were obtained from the FMM and MATRADE directories. Seven firms (13%) were approached during the EABEX 05 – APEC Summit Meeting, and the respondents referred the remaining twenty (37%) during the interviews. When cross-checked, majority of the companies were listed in the FMM and MATRADE directories.

Interview location were mainly on the respondents premises, such as factor or office; however, five preferred another location, such as a restaurant (2), golf club (2) and one invited the researcher to his house (as we live in the same residential area). The interviews lasted between 45 minutes to more than two hours, although the majority took about 45 to 90 minutes and average the length of interview was 55 minutes. With the respondents’ permission, the interviews were tape recorded and some hand notes were made. Four respondents preferred not to have the conversation taped, so the data was based on note taking and the information extracted from their websites.

Multi-Industries, Multi-Samples

After nearly three months of contacting and interviewing, fifty-four (54) manufacturing SME respondents participated in the in-depth interviews. This figure
exceeded the expected number of forty aimed for. These purposively and theoretically based companies were classified into seven industries which is expected to provide a good base for replicating the results as advised by Eisenhardt (1989) and Yin (1994).

**Table 3.6: Industry Classification, Code, Companies, and Percentage**

<table>
<thead>
<tr>
<th>No.</th>
<th>Industry</th>
<th>Code</th>
<th>No. of Companies</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Electrical &amp; Electronics</td>
<td>Electrical (EE)</td>
<td>8</td>
<td>14.8</td>
</tr>
<tr>
<td>2</td>
<td>Agro Manufacturing</td>
<td>AgroMan (AG)</td>
<td>6</td>
<td>11.1</td>
</tr>
<tr>
<td>3</td>
<td>Food &amp; Beverages</td>
<td>FoodBev (FB)</td>
<td>8</td>
<td>14.8</td>
</tr>
<tr>
<td>4</td>
<td>Rubber &amp; Plastic-based</td>
<td>RubPlas (RP)</td>
<td>6</td>
<td>11.1</td>
</tr>
<tr>
<td>5</td>
<td>Transport &amp; Machinery</td>
<td>TransMach (TM)</td>
<td>8</td>
<td>14.8</td>
</tr>
<tr>
<td>6</td>
<td>Biotechnology &amp; Herbal</td>
<td>BioHerb (BH)</td>
<td>9</td>
<td>16.7</td>
</tr>
<tr>
<td>7</td>
<td>Wood-based &amp; Furniture</td>
<td>WoodFurn (WF)</td>
<td>9</td>
<td>16.7</td>
</tr>
</tbody>
</table>

**54**

100

### 3.6.2.5 Industry Summaries

- **Industry 1** consists of eight companies (14.8%) that represent Electrical and Electronics firms (EE). Companies in this industry produce electrical goods, such as electronic display boards, lamps, cables and accessories, termination kits, low voltage switchboards and switchgears.

- **Industry 2** consists of six companies (11.1%) representing Agro-Manufacturing (AM). This industry produces goods, such as, agro products (i.e. chutney, herbal tea, roselle jam, and cordial juice), palm oil products (i.e. margarine, shortening, vegetable ghee, cooking oil), commodity products (i.e. ground spices, cocoa, flour & premixes) and coffee.

- **Industry 3** relates to Food and Beverages (FB). The eight companies (14.8%) in this industry produce packaged food products, such as soft drinks, prepared foods (i.e. pizza, cold cuts, sausages, satay, and soup), biscuits (i.e.
cookies & traditional dishes), vermicelli products, and sauces (i.e. chilli, oyster, black and tomato sauce) candy & jelly and fish products.

- **Industry 4** consists of six companies (11.1%) represents Rubber and Plastic-based (RP) industry. The related goods for this industry are rubber foam mattresses, pillows, plastic cables for constructions, disposable syringes and plastic needles, and other related plastic products.

- **Industry 5** relates to Transport and Machinery Equipment (TM). The eight companies (14.8%) in this industry produce automotive parts (i.e. brake systems, stabilizer bars, coil springs, engine & transmission components, cold drawn steel bars), machinery equipment (i.e. processing equipment, pressure vessels, structural steel products, measuring instruments, cutting tools and oven) as well as military and rescue vehicles.

- **Industry 6** relates Biotechnology and Herbal products (BH) and includes nine companies (16.7%). The examples of biotech products are animal vaccines, liquid fertilizer and medical products and the herbal products are mainly related to herbal supplements and personal care products.

- **Industry 7** was the Wood-based and Furniture (WF) industry and consists of nine companies (16.7%). This industry involves three categories of products: (a) Furniture (i.e. audio furniture, metal and cane furniture, solid surface, office & lab furniture), (b) Crafts and kitchenware, and (c) Paper products (i.e. fine papers and boards, photocopy, book covers, table-top calendars, diaries, tailor-made boxes, hard cover files with ring mechanism, etc).

The information provides better insights into the companies. A summary of the two-phased qualitative design is presented in Table 3.7.
Table 3.7: Summary of the Two-phased Interview Approach

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Phase I: Telephone Interviews</th>
<th>Phase II: In-depth Interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data Collection</td>
<td>Preliminary Study</td>
<td>Main Study</td>
</tr>
<tr>
<td>Purpose</td>
<td>To identify the SME internationalisation issue in Malaysia</td>
<td>To gain a deeper understanding on the internationalisation of SMEs in manufacturing sector in Malaysia</td>
</tr>
<tr>
<td>Time</td>
<td>September to October 2005</td>
<td>December 2005; January to February 2006</td>
</tr>
<tr>
<td>Approach</td>
<td>Distant telephone interviews</td>
<td>In-depth interviews; Face-to-face</td>
</tr>
<tr>
<td>Setting</td>
<td>Australia to Malaysia</td>
<td>Malaysia</td>
</tr>
<tr>
<td>Source of Information</td>
<td>● On-line web sites, such as MITI, MIDA, NPC, MTDC SMIDEC and MATRADE ● Researcher’s Colleagues ● Researcher’s circle of Networking</td>
<td>● Latest directories: (i) Federation of Malaysian Manufacturers (FMM) 2005 and (ii) Malaysia Exports 2004/05, Directory of Malaysian Products and Services. ● Researcher’s circle of Networking</td>
</tr>
<tr>
<td>Unit of Analysis</td>
<td>A panel of Malaysian-based experts</td>
<td>Malaysian SMEs and CEOs/1key executives in manufacturing sector involved with internationalising their firms</td>
</tr>
<tr>
<td>No. of Sample</td>
<td>16 Experts: Five Categories</td>
<td>54 SME Firms: Seven Industries</td>
</tr>
<tr>
<td>Approval Protocol</td>
<td>Approval from Murdoch University Ethics Committee</td>
<td>Approval from: ● Murdoch University Ethics Committee ● Researcher’s employer (Universiti Kebangsaan Malaysia, UKM) ● The Minister of Higher Education of Malaysia ● Public Service Department of Malaysia</td>
</tr>
<tr>
<td>Implication</td>
<td>Interview guide refinement for the main study</td>
<td>Deep understanding of SME internationalisation in Malaysia</td>
</tr>
</tbody>
</table>
3.7 Data Analysis

Data analysis in qualitative research is quite different from quantitative analysis (DeNardo, 2007). The data analysis approaches used in this study include transcribing and coding data, approaches to coding data and methods for the analysis.

3.7.1 Transcribing of Data

The interviews were recorded using an MP3 player. The advantage of a digital device is the recorded interviews can be stored, archived and transmitted electronically (Stockdale, 2002). All the recorded interviews were transcribed over a ten month period and in some cases, translation was needed. On average, 8-10 hours were required per interview and the transcript sizes ranged from 6 to 26 pages. Another two months were taken to double check the interview scripts for inconsistencies. Transcribing can be a very time consuming and tedious job (Bryman et al., 2007), however it is worthwhile task for the researcher as transcription aids comprehension. (Appendix 3 provides an example of a transcript).

Transcription was undertaken in three ways. The first, was a word for word transcription of thirty interviews, where either minimal or no translation was required. Second, was a partial transcription of the twenty interviews that were conducted in Bahasa Melayu. Sufficient data for analysis and coding was translated. The third transcription included the meanings and contexts taken from the interviews. In addition, the notes and external information of the four companies that did not want their interviews to be taped were transcribed.
3.7.2 NVivo and Hand Coding

Another challenge for qualitative researchers is how to manage abundant data (Hesse-Biber et al., 2006). One way of handling rich qualitative data is by coding or “sorting data according to concepts and themes” (Ghauri, 2004, p.118). Coding can be done manually or by utilising specialised qualitative software, such as NVivo. The current study adopted both methods.

NVivo software assists the researcher manage, store and analyse large quantities of data (Bazeley & Richards, 2003) as data can be coded into nodes. The interview scripts were read thoroughly and the research questions were referred to work out the themes for each node. This process ensures that the statements or phrases from the transcripts are placed at the right nodes. NVivo is a useful tool to link the data to emerging concepts and themes and to develop the overall conclusions of the study, but it does not replace the researcher’s role in analysing and interpreting qualitative data (Morse et al., 2002). For that reason and for triangulating the results, data coding was also conducted manually and simultaneously.

A word processor has common functions, such as ‘find’, ‘copy’ and ‘paste’ that are practical for searching for certain words, phrases, and occurrences in the transcripts. This not only assists coding but also allows for frequency count analysis. The researcher retains control of the analytical process through manual coding and this assists conceptualisation of the themes. Both the NVivo and manual coding process apply similar techniques, however, regardless of which technique implemented, Morse and Richards (2002) confirm that:
“It is the researcher who makes all the analytic decisions, not the data, not the method, not the computer. It is the researcher who makes necessary data to produce a rich study, ensures methodological congruence, and is meticulous about documentation. It is the researcher who is incisively interrogates data, accurately recognizes clues, and sensitively interprets” (Adapted from Morse et al., 2002, p. 209).

3.7.3 Methods of Data Analysis

Before coding, the four research questions of the study were examined to determine the best possible methods to analyse the data. Hence, the present study employs two techniques of analysis.

- Firstly, a thematic approach based on coding (Hesse-Biber et al., 2006) was utilised to identify the themes and determinants of factors affecting the SME Internationalisation process in the manufacturing sector in Malaysia.
- Secondly, frequency counts, based on intelligent coding, which is a selective coding approach that refers to the number of occurrences of themes and factors (Bryman et al., 2007) was utilised.

3.7.3.1 Thematic Analysis

Following the suggestion on how to analyse qualitative data by Morse and Richards (2002), two coding approaches were adopted; descriptive coding and topic coding.

- Descriptive coding was employed to index attributes of data. This included; the firm – the firms industry type, date of establishment, time of foreign entry, firm size, foreign markets and pattern of internationalisation; and information about the respondent, such as position, tenure, level of education, ethnicity, gender and age.
Topic coding was employed to index all the data related to a particular topic or subject as recommended by Morse and Richards (2002). The topic coding included the awareness of internationalisation, motives and hindrances to internationalisation, the firm specific factors influencing internationalisation, and the key personnel factors that enhance internationalisation.

3.7.3.2 Frequency Counts Analysis

Frequency counts were carried out once coding on themes and relevant determinants were identified. To avoid massive calculations, the frequency counts were organised industry by industry. Being able to quantify the themes and driving factors of internationalisation help to rank these so their individual importance can be understood. The method also allows comparison and contrasting of influential factors amongst the industries; hence, the similarities and differences can be identified and explored. The procedure for doing the frequency count was as follows:

- Part 1 (Within Industry): Identify all themes and their relevant indicators in each company from that industry. Count the occurrences of determinants of each theme. Calculate the total number of companies mentioning the theme and convert the occurrences into percentages.

- Part 2 (Cross industry): Extract the results from Part 1 and place them in appropriate columns indicating the industry. Calculate the total number of companies/SMEs mentioning the determinants of the theme and convert the occurrences into percentages.
Part 3 (Influential Factors): To determine the influential factors from the data analysed in Parts 1 and 2. The overall average percentage for each theme was calculated and the most influential factors were determined.

Subsequently, the thematic and frequency count analyses were applied in the coding procedure. This is discussed next.

3.7.4 Coding Procedures

Coding was performed industry by industry and was based on the research questions, in the following stages.

- **Stage 1**: All the printed and ‘document’ transcripts were organised and stored accordingly to their files for easy archive. Before the coding was performed, the transcripts were read thoroughly, the field notes were compared and memos made. The purpose was to become very familiar with the data to assist with the coding of the topics, themes and factors.

- **Stage 2**: The descriptive coding was tackled first. The data was set in two Excel files for manual coding of the firms and the respondents’ profiles. To assist coding, each industry was distinguished with a different colour that was consistently applied throughout the coding process. Results, in the form of frequency counts and percentages are displayed in tables or diagrams, such as bar graphs or pie charts. This stage mainly addressed Research Issues 1 and 2 of the study by focusing on the internationalisation awareness and the pattern and dimensions of internationalisation.

- **Stage 3**: Next, topic coding was undertaken to address the last two research issues. Research Issue 3 identifies the driving forces for internationalisation,
while Research Issue 4 focuses on the key drivers of internationalisation. Coding for the driving forces were divided into two parts; the motives for and the impediment encountered when internationalising.

- **Stage 4:** The key drivers were searched for the four themes of firm-specific, key personnel and external factors. At this stage, extra precaution was taken to ensure accurate coding of the sub themes. Notes on the most influential factors were made in preparation for the next stage of coding.

- **Stage 5:** This involved coding the most influential factors affecting the internationalisation process of the manufacturing Malaysian SMEs to determine if there is a Malaysian model. The procedure for identifying the most influential factors will be explained in Chapter 4.

### 3.7.5 Summary of the Data Analysis

The above section has described how the data was analysis. The verbatim comments of the respondents and field notes were analysed using both manual and statistical software. The statistical package used was NVivo software. Analysing the data with both methods helps ensure a valid analysis through triangulation of the data. The data was organised into topics and descriptive themes and thematic frequency counts were utilised. An example of the coding procedure for each research question is included in **Appendix 4.** A summary of the data analysis section is shown in Figure 3.5.
3.8 Research Credibility: Reliability, Validity and Triangulation

Research credibility in qualitative research has created a strong debate particularly in the positivist paradigm (Guba et al., 1994; Miles et al., 1994; Partington, 2002). Guba and Lincoln (1994) suggest trustworthiness and authenticity are criteria to assess research quality. Trustworthiness concerns the accuracy and correctness of the research, while authenticity takes into account broad impact of the research...
Table 3.8: Description of Trustworthiness and Authenticity

<table>
<thead>
<tr>
<th>Component</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Trustworthiness</strong></td>
<td></td>
</tr>
<tr>
<td>Credibility (internal validity)</td>
<td>The researchers’ observation matches the theoretical ideas.</td>
</tr>
<tr>
<td>Transferability (external validity)</td>
<td>The research findings can be generalised across social settings.</td>
</tr>
<tr>
<td>Dependability (reliability)</td>
<td>The study can be replicated (external reliability) and whether or not others who observe and hear the information agree with it (internal reliability).</td>
</tr>
<tr>
<td>Confirmability (objectivity)</td>
<td>The researcher acts in good faith when conducting research.</td>
</tr>
<tr>
<td><strong>Authenticity</strong></td>
<td></td>
</tr>
<tr>
<td>Fairness</td>
<td>The research fairly represents different viewpoints of the social actors.</td>
</tr>
<tr>
<td>Ontological</td>
<td>The research arrives at a better understanding of certain phenomena.</td>
</tr>
<tr>
<td>Educative</td>
<td>The research assists others to appreciate peoples’ views.</td>
</tr>
<tr>
<td>Catalytic</td>
<td>The research acts as an impetus for change agents.</td>
</tr>
<tr>
<td>Tactical</td>
<td>The research empowers others to make changes.</td>
</tr>
</tbody>
</table>

Source: Adopted from Bryman and Bell (2007, p.410-414) and (Guba et al., 1994)

To ensure trustworthiness and authenticity, the current research complied with established criteria by following logical research design throughout the conduct of this research. The research design, data collection methods and analysis were cautiously designed to address reliability, validity and triangulation issues.
3.8.1 Addressing Reliability

Reliability or dependability in a study is demonstrated by being able to produce the same results when the study is replicated (Bloor & Wood, 2006; Guba et al., 1994). This was attained in the current research through:

1) The research design conforming to the selected research paradigm, as suggested by Cavana et al. (2001), and the design and process replicating the recommendations of Thomas (2004);

2) The design of an interview guide for both phases of data collection to help ensure all respondents were subjected to the same procedures of interview questions as recommended by Flick (2002) and May (2001);

3) The data collection methods being precisely described. This includes the flow of interviewing, as recommended by Daniels and Cannice (2004), the sampling design and selection, as recommended by Eisenhardt (1989) and entry into the setting, as recommended by Wilkinson et al. (2004) and Yeung (1995); and

4) Detailed outlining of the procedures for data analysis, such as transcribing, coding and analysing processes, as recommended by Bryman et al., (2007) and Morse et al.,(2002).

Therefore, the research design, interview guides, data collection methods and procedures for analysis contribute to the research reliability, enabling others to replicate the study. Yet, another concern is the validity of the research.
3.8.2 Addressing Validity

Validity refers to “the extent to which the research produces an accurate version of the world” (Bloor et al., 2006, p.147). In the qualitative approach, validity addresses two issues: credibility or internal validity and transferability or external validity, as shown in Table 3.8. These are explained below.

Research credibility or internal validity relates to the ability of a researcher to fit the data to a given theoretical framework (Bryman et al., 2007; Hesse-Biber et al., 2006). For credibility or internal validity, the current research utilised coding by matching and contrasting the themes and sub themes that emerged and analysed the data against the existing themes and determinants found in the literature review (Eisenhardt, 1989; Yin, 1994). Apart from the literature review, opinions from academic colleague about fitting determinants to appropriate themes was also sought to accomplish research credibility.

Transferability, also known as external validity implies that the research findings can be generalised across social settings. Generalisation refers to the application of findings to other contexts or cases in a wider population (Bloor et al., 2006; Yin, 1984). The qualitative methodology and interpretive and critical realism paradigms have been criticised for lacking generalisability or, more precisely, lacking ‘statistical generalisation’. Ruddin (2006) strongly advocates for positivism by stating that: “You can generalise stupid! (p.797) ... Without generalisation, we could not interact with our world in a coherent manner” (p.798).
In contrast, the qualitative-critical realism approach is rich in analytical generalisations through theme analysis that usually deals with purposively small selected samples (Hesse-Biber et al., 2006; Yin, 1994). Analytical generalisation was achieved through:

1) replication through the multiple-industry design as proposed by Yin (1994) in the initial interviews with sixteen experts and in the in-depth interview with key personnel;

2) adopting purposive sampling as recommended by Cavana et al. (2001). This was achieved by focusing on internationalised SMEs in the manufacturing sector;

3) reporting the evidence of findings in a manner rich enough for others to apply, as recommended by Miles et al. (1994); and

4) using an ‘embedded multiple industry-multiple sample’ design (Miles et al., 1994; Yin, 1994) where companies were from Malaysia and represented various industries in the SME manufacturing sector.

The validity of the findings was achieved by comparing findings with theoretical ideas, utilising replication logic and reporting rich results. These enhance the credibility, transferability and generalisability of the research findings. In addition, the reliability and validity need to be triangulated.
### 3.8.3 Addressing Triangulation

Triangulation is achieved by combining methods or sources of data to improve the consistence of the story identified in social phenomena (Bryman et al., 2007). Four types of triangulation have been identified and the first three were used in this study: 1) *data triangulation*: the use of a variety of data sources; 2) *methodological triangulation*: the use of multiple methods to study a single problem; 3) *theory triangulation*: the use of multiple perspectives to interpret a single set of data; and 4) *investigator triangulation*: the use of a several different researchers or investigators to conduct research (Denzin, 1978, as cited in Thomas, 2004). The triangulation in the current study was attained through:

1) triangulating data sources in the form of interviews, observations, documents and field notes;
2) integrating various internationalisation perspectives such as the stage, rapid or born global models, and the international new ventures, networking, resource-based and international entrepreneurship perspectives;
3) cross checking the interview guides with academic colleagues;
4) cross checking the unit of analysis in two updated directories, the Malaysia External Trade Development Corporation (MATRADE), and the Federation of Malaysian Manufacturers (FMM) directories;
5) conducting two phases of interview; the exploratory telephone interview and in-depth interviews;
6) interviewing two sets of informants; the Malaysian based experts and key personnel of internationalised SME’s;
7) validating the transcripts from selected firms using a convenience approach undertaken in November 2007;
8) utilising two data analysis techniques; the NVivo software and manual analysis; and

9) reporting the findings of both qualitative-thematic analysis and basic quantitative statistical analysis.

3.9 Ethical Issues

“Ethical issues cannot be ignored, in that they relate directly to integrity of a piece of research and of the disciplines that are involved”. (Bryman et al., 2007, p.127)

Ethical issues arise in the entire conduct of research and are underpinned by two main principles, “honesty and respect for the rights of individuals” (Ticehurst et al., 2000, p.56). Individuals refer to the researchers, research subjects, research sponsors and the gatekeepers of the targeted research subjects (Barnes, 1979 as cited in; May, 2001; Thomas, 2004). The researcher needs to comply with ethical codes of conduct, such as obtaining informed consent, protecting respondents from harm and risk, allowing them free choice. Individuals must be guarded and their confidentiality and anonymity must be protected (Bryman et al., 2007; Miles et al., 1994; Thomas, 2004; Ticehurst et al., 2000). Consideration was given to these prior to data collection. The research design was approved by the Murdoch University Human Research Ethics Committee. Permission was also sought and granted from the Universiti Kebangsaan Malaysia (UKM), the researchers’ sponsor, before fieldwork in Malaysia was pursued. A copy of this letter is attached in Appendix 5). Letter of informed consent and a request for participation were sent to targeted respondents
and copies of these documents are attached in Appendix 6). These explained the research project and provided justification of how it would benefit SME international development in Malaysia as well as advising how the data would be collected.

The letters also provided assurance that participants would not be exposed to a risk during the fieldwork and that they were free to withdraw at any time they wanted, without giving any reason. Further, assurance was provided that all information given during the fieldwork would be held in confidence and anonymity would be respected. The respondents and their firms’ identities would not be disclosed without their written permission. The key personnel’s names and their respective affiliations have not been revealed, instead have been used for example, EE1, TM4, and FW8, etc.

3.10 Chapter Conclusions

This chapter has described the research philosophy and paradigm adopted for the study and explained the chosen methodology. As the study aims to explore the SME internationalisation process of industries in the manufacturing sector, a qualitative approach was employed. The chapter has explained the design of the study and the methods of data collection. The two-phased interview technique, including the interviews with Malaysian experts and the interviews with key personnel, has been explained, as has the interview processes and methods of statistical and thematic analyses. Lastly, issues related to the research reliability, validity and triangulation were addressed and the ethical considerations impacting on the study were covered.
CHAPTER 4
EMPIRICAL ANALYSIS

4.1 Introduction

The purpose of Chapter 4 is to discuss the analysis and results obtained from the two-phased qualitative study addressing how Malaysian Small and Medium Manufacturing Enterprises (SMEs) internationalise and their internationalisation processes. Chapter 4 presents the results of the Phase I – the Exploratory Experts Survey and the results of the in-depth interviews with key executives from 54 Malaysian-based SMEs in seven industries.

Both qualitative and quantitative results are presented. The analyses begin with the profiles and characteristics of the participating SMEs and the key executives. It examines the following Research Issues: 1) Internationalisation Awareness; 2) The Internationalisation Process (Dimensions and Patterns); 3) The Driving Forces Influencing Internationalisation Process; and 4) The Key Drivers Influencing Internationalisation.

The determinants of the influential factors are investigated. The key findings of the four Research Questions are summarised and compared with the conceptual framework drawn from the literature. An ‘integrated model’ of Internationalisation for Malaysian SMEs is presented before the conclusion. Basic statistical analysis
and thematic analysis were conducted. The structure of Chapter 4 is depicted in Figure 4.1.

Figure 4.1: Outline of Chapter 4

Introduction → Brief Findings on Exploratory Experts Survey → The In-depth Interviews Findings → Profiles and Characteristics → Structure of Analysis

The Internationalisation
Awareness

- Understanding of Internationalisation
- Source of Information

The Internationalisation
Process

- Dimensions of Internationalisation
- Patterns of Internationalisation

Driving Forces for
Internationalisation

- Motivating Factors
- Inhibiting Factors

Key Drivers to
Internationalisation

- Firm Specific
Factors
- Key Personnel
Factors

The Influential Factors

Chapter Conclusions

Source: Developed for this thesis
4.2 Brief Findings on Exploratory Experts’ Survey

The findings from the experts’ survey are only briefly discussed because they were the basis for the main study. Three succinct descriptions and analysis are presented these being a profile of panel of experts; the significant findings; and the perceptions of experts in regards to SME internationalisation in Malaysia.

4.2.1 The Panel of Expert

Using ‘judgement sampling’, the experts were selected on the basis of their expertise about SMEs and international development in Malaysia. Table 4.1 summarises the experts’ profiles.

Table 4.1: The Profiles of Expert

<table>
<thead>
<tr>
<th>Category</th>
<th>Position</th>
<th>Functions</th>
<th>Affiliations</th>
<th>*LWE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Academics</td>
<td>Associate Professor</td>
<td>SME Development and Entrepreneurship</td>
<td>Public Universities in Malaysia</td>
<td>more than 10 to 30 years</td>
</tr>
<tr>
<td></td>
<td>Senior Lecturer</td>
<td>Franchising</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>International Business and Strategic Management</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Policymakers</td>
<td>Director</td>
<td>Entrepreneurship &amp; Dev.</td>
<td>MIDA, MITI, MARA and MECD</td>
<td>more than 10 to 30 years</td>
</tr>
<tr>
<td></td>
<td>Assistant Director</td>
<td>Cross Border Investment</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Automotive and ICT Sector</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supporting Government Agencies</td>
<td>Director</td>
<td>Foreign Direct Investment</td>
<td>SMIDEC, MIDF, MIEL and MATRADE</td>
<td>20 to more than 30 years</td>
</tr>
<tr>
<td>(SGA - 4 Experts)</td>
<td>Assistant Director</td>
<td>Marketing</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Executive</td>
<td>Entrepreneurship Development</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chamber of Commerce</td>
<td>Executives</td>
<td>Strategic Planning</td>
<td>The Malay Chambers of Commerce &amp; The Malaysia Chambers of Commerce</td>
<td>More than 20 years</td>
</tr>
<tr>
<td>(CC - 2 Experts)</td>
<td></td>
<td>Global Marketing</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research Institute</td>
<td>Director</td>
<td>Small Medium Industry</td>
<td>SIRIM and IKMAS</td>
<td>20 to more than 30 years</td>
</tr>
<tr>
<td>(RI - 3 Experts)</td>
<td></td>
<td>R&amp;D Divisions</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*LWE : Length of Working Experience (in years)

Source: Experts Survey 2006
The experts were from five categories; Academics (3:18%), Policymakers (4:25%), Supporting government agencies (4:25%), the Chamber of Commerce (2:13%), and Research Institutes (3:19%), and included Associate Professors, a Senior Lecturer and other senior or executive level employees at the level of Director or Assistant Director. All are specialised in one or more of the following areas; SME development or Entrepreneurship, Business Franchising, Strategic Management and Planning, International Business, Global Marketing, Cross Border Investment, Foreign Direct Investment, Small Medium Industry, and Research and Development.

The experts represented a range of institutions or departments directly involved with SME development in Malaysia. For example, the policymakers were drawn from MITI\(^1\), MECD\(^2\), MARA\(^3\) and or MIDA\(^4\). Other supporting government agencies included SMIDEC\(^5\), MATRADE\(^6\), MTDC\(^7\), MIDF\(^8\) and MIEL\(^9\). Industry representatives were from the Malay and Malaysian Chambers of Commerce, and research representatives were from Standards and Industrial Research Institute of Malaysia (SIRIM) and Malaysia and International Research Institute (IKMAS). The experts all had in excess of 10 years, and in some cases up to more than 30 years work experience. Experience is important because the research results rely on the quality of the participants or experts.

\(^1\) MITI – Ministry of International Trade and Industry
\(^2\) MECD – Ministry of Entrepreneur and Cooperative Development
\(^3\) MARA – Majlis Amanah Rakyat (The Council of Trust for Indigenous People)
\(^4\) MIDA – Malaysian Industrial Development Authority
\(^5\) SMIDEC – Small and Medium Industries Development Corporation
\(^6\) MATRADE – Malaysia External Trade Development Corporation
\(^7\) MTDC – Malaysian Technology Development Corporation
\(^8\) MIDF - Malaysian Technology Development Finance
\(^9\) MIEL - Malaysian Industrial Estate Limited
4.2.2 Significant Findings of the Experts’ Survey

Data from the experts’ survey was analysed and comprehensive quantitative findings are shown in Table 4.2.

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Key Themes</th>
<th>Experts (N=16)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Reasons</td>
<td>Domestic conditions</td>
<td>12 (75%)</td>
</tr>
<tr>
<td></td>
<td>Resource Seeking</td>
<td>8 (50%)</td>
</tr>
<tr>
<td></td>
<td>Market Issue</td>
<td>11 (69%)</td>
</tr>
<tr>
<td></td>
<td>Globalisation</td>
<td>12 (75%)</td>
</tr>
<tr>
<td>2. Firm</td>
<td>Firm Itself</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Resources</td>
<td>10 (63%)</td>
</tr>
<tr>
<td></td>
<td>Product</td>
<td>10 (63%)</td>
</tr>
<tr>
<td></td>
<td>Reputation</td>
<td>5 (31%)</td>
</tr>
<tr>
<td></td>
<td>Capability</td>
<td>7 (44%)</td>
</tr>
<tr>
<td></td>
<td>Key Managers</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Attitudes</td>
<td>12 (75%)</td>
</tr>
<tr>
<td></td>
<td>Background</td>
<td>11 (69%)</td>
</tr>
<tr>
<td></td>
<td>Interpersonal Skills</td>
<td>14 (88%)</td>
</tr>
<tr>
<td>3. Industrial</td>
<td>Intense competition</td>
<td>14 (88%)</td>
</tr>
<tr>
<td></td>
<td>Market Attractiveness</td>
<td>9 (56%)</td>
</tr>
<tr>
<td></td>
<td>Economies of scale</td>
<td>8 (50%)</td>
</tr>
<tr>
<td></td>
<td>Nature of sectors</td>
<td>6 (38%)</td>
</tr>
<tr>
<td>4. External</td>
<td>Political Forces</td>
<td>10 (68%)</td>
</tr>
<tr>
<td></td>
<td>Economy</td>
<td>11 (69%)</td>
</tr>
<tr>
<td></td>
<td>Society</td>
<td>4 (25%)</td>
</tr>
<tr>
<td></td>
<td>Technology</td>
<td>8 (50%)</td>
</tr>
<tr>
<td>5. Relationships</td>
<td>Institutions</td>
<td>16 (100%)</td>
</tr>
<tr>
<td></td>
<td>Other players</td>
<td>12 (75%)</td>
</tr>
<tr>
<td></td>
<td>Personal relation</td>
<td>13 (81%)</td>
</tr>
<tr>
<td>6. Challenges</td>
<td>Political Wills</td>
<td>5 (31%)</td>
</tr>
<tr>
<td></td>
<td>Management</td>
<td>7 (44%)</td>
</tr>
<tr>
<td></td>
<td>Competition</td>
<td>6 (38%)</td>
</tr>
<tr>
<td>7. Barriers</td>
<td>Resources</td>
<td>11 (69%)</td>
</tr>
<tr>
<td></td>
<td>Financial</td>
<td>12 (75%)</td>
</tr>
<tr>
<td></td>
<td>Attitude</td>
<td>9 (56%)</td>
</tr>
<tr>
<td></td>
<td>Capability (R &amp; D)</td>
<td>9 (56%)</td>
</tr>
<tr>
<td></td>
<td>Political</td>
<td>5 (31%)</td>
</tr>
<tr>
<td></td>
<td>Management</td>
<td>10 (63%)</td>
</tr>
<tr>
<td>8. Internationalisation Expectation</td>
<td>Increased Profit Making</td>
<td>13 (81%)</td>
</tr>
<tr>
<td></td>
<td>Expanded Market</td>
<td>11 (69%)</td>
</tr>
<tr>
<td></td>
<td>Increased Learning</td>
<td>9 (56%)</td>
</tr>
<tr>
<td></td>
<td>Increased Competition</td>
<td>5 (31%)</td>
</tr>
<tr>
<td>9. Operation</td>
<td>Modes of entry</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Exporting</td>
<td>12 (75%)</td>
</tr>
<tr>
<td></td>
<td>Subcontracting</td>
<td>11 (69%)</td>
</tr>
<tr>
<td></td>
<td>Others</td>
<td>10 (63%)</td>
</tr>
<tr>
<td></td>
<td>Markets</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Selection</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Within South East Asia Region</td>
<td>7 (44%)</td>
</tr>
<tr>
<td></td>
<td>Free Trade Zone Agreement</td>
<td>3 (19%)</td>
</tr>
<tr>
<td></td>
<td>Neighbouring countries</td>
<td>10 (63%)</td>
</tr>
<tr>
<td></td>
<td>Others</td>
<td>7 (44%)</td>
</tr>
</tbody>
</table>

Source: Summarised results from the Experts Survey 2006
Seven contributing factors for internationalisation were identified, and include: 1) Domestic conditions, 2) Globalisation and liberalisation condition; 3) Industrial characteristics; 4) Business and social networks; 5) Government’s incentives and supports; 6) Firm factors; and 7) Founders or key managers’ characteristics. These are listed in Table 4.3.

### Table 4.3: Influences and Contributing Factors on SME Internationalisation

<table>
<thead>
<tr>
<th>No</th>
<th>Influences</th>
<th>Contributing Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Domestic Conditions</td>
<td><em>E.g.</em>, market saturated, small demand, for survival, competitive advantage, competitions.</td>
</tr>
<tr>
<td>2.</td>
<td>Globalisation and Liberalisation Condition</td>
<td><em>E.g.</em>, pressure from globalisation, greater opportunities abroad, connected to global suppliers, global products, free trade area, economic and regional integration.</td>
</tr>
<tr>
<td>3.</td>
<td>Industrial Characteristics</td>
<td><em>E.g.</em>, nature of industry/product, Industrial Linkages Programmes, Government-linked Companies, Global supply chains, size of industry.</td>
</tr>
<tr>
<td>4.</td>
<td>Business and Social Networks</td>
<td><em>E.g.</em>, networking with government and its agencies, host countries’ agents, embassies, small/big local/international companies, other individuals.</td>
</tr>
<tr>
<td>5.</td>
<td>Government’s Incentives and Supports</td>
<td><em>E.g.</em>, financial supports, grants, funds, marketing, business matchings, information on international opportunities, policies and regulations.</td>
</tr>
<tr>
<td>6.</td>
<td>Firm Factors</td>
<td><em>E.g.</em>, unique/outstanding resources, financial strength, reputable firm, capable and skilful human capitals, good networking.</td>
</tr>
<tr>
<td>7.</td>
<td>Founders/Key Managers Characteristics</td>
<td><em>E.g.</em>, background, corporate philosophy, mission and vision, attitudes, interpersonal skills, self-driven motivation, risk-taker, aggressive, think global, past experience, entrepreneurial, opportunities-seeker.</td>
</tr>
</tbody>
</table>

*Source: Drawn from the Experts Survey 2006*

### 4.2.3 The Perceptions of Experts

To support the above findings, some phrases extracted from the experts’ survey are shown below in Table 4.4. Although not be complete (as they were extracted from the telephone interviews), these quotes capture the meaning of the issues deemed important for influencing the internationalisation process of SMEs in Malaysia. These findings have been presented in three international conferences and can be viewed on the websites listed in Appendix 7.
Table 4.4: Key Influences on the Internationalisation of SMEs

<table>
<thead>
<tr>
<th>Issues</th>
<th>Expert</th>
<th>Relevant Phrases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grow</td>
<td>AC 1</td>
<td>“To take opportunity to expand the business – To gain strong foothold in local market”.</td>
</tr>
<tr>
<td>Survive</td>
<td>SGA 2</td>
<td>“For survival, SMEs are forced to move into international arena. Looking for new opportunities or new markets”.</td>
</tr>
<tr>
<td>Vision</td>
<td>SGA 1</td>
<td>“The owners’ vision - they foresee the huge market and opportunities, take more aggressive measure to gain profit or to make more money”.</td>
</tr>
<tr>
<td>Motivation</td>
<td>RI 1</td>
<td>“Self-driven motivation! The founders see the opportunities, see the trend, self-effort to seek the market, involve with international exhibitions. Develop customers’ confidence and build mutual trust – through consistent relationship”.</td>
</tr>
<tr>
<td>Attitudes</td>
<td>CC 1</td>
<td>“Risk takers, active, visionary, aggressive, need high communication level - possess certain negotiation skills”.</td>
</tr>
<tr>
<td></td>
<td>PM 3</td>
<td>“Lack of enthusiasm to try something new and challenging, not creative, not motivated. SMEs lack of expertise in technology and insufficient R&amp;D. Many SMEs owners rely on government subsidy”.</td>
</tr>
<tr>
<td>Firm factor</td>
<td>SGA 4</td>
<td>“Firm’s own strengths – technical capabilities, meet requirement, good packaging, advanced in technology. Sustainable productions - able to fulfill demand on time. Branding – firm’s long term strategy for competitive advantage and R&amp;D capability”.</td>
</tr>
<tr>
<td>Knowledge</td>
<td>SGA 3</td>
<td>“Adequate knowledge to operate in foreign markets, know the rules of trading in host countries, know-how - advanced in ICT, high capability, the viability of the project, able to make appropriate decision, past experience, international exposure”.</td>
</tr>
<tr>
<td>Capability</td>
<td>PM 3</td>
<td>“Capability means knowledgeable; capacity does not totally depend on the (government’s) funding. SMEs need to have their own funding to cover any unexpected cost”.</td>
</tr>
<tr>
<td>Government Assistance</td>
<td>SGA 1</td>
<td>“Good supports and policies provided by government and its supporting agencies such as SMIDEC, MATRADE, MARA, SIRIM etc. Incentives - such as tax, free promotional programmes, exhibitions, trainings”.</td>
</tr>
<tr>
<td>Globalisation Matter</td>
<td>PM 3</td>
<td>“Move towards globalisation; other players are already competing globally, the pressure is strong for SMEs to be among the global players”.</td>
</tr>
<tr>
<td>Industrial Policy</td>
<td>PM 2</td>
<td>“Industrial Linkages Programs (ILPs) provide productions to MNCs, local or foreign. - Outsource some products to local SMEs - become suppliers to MNCs usually by subcontracting and vendors”.</td>
</tr>
<tr>
<td>Foreign Entry Mode</td>
<td>PM 1</td>
<td>“Depending on the size and the mode taken to go international: if small and medium scale manufacturers usually go through government agencies such as SMIDEC and MATRADE; if big size usually using MIDA and MITI”.</td>
</tr>
<tr>
<td></td>
<td>AC 2</td>
<td>“Using strategic alliances, such as joint venture, licensing, not many with pure/direct exporting, usually through agents/representatives, some go as subcontracting and vendors”.</td>
</tr>
<tr>
<td>Markets</td>
<td>SGA 2</td>
<td>“Around the regions, neighbour countries where cost for market resources such as labour, land and raw material are still low compared to Malaysia”.</td>
</tr>
<tr>
<td>Lack of knowledge</td>
<td>PM 1</td>
<td>“Lack of information and knowledge on host countries, thus reduce the awareness of business opportunities in particular markets”.</td>
</tr>
<tr>
<td>Procedures</td>
<td>SGA 4</td>
<td>“Procedures to export - many things to do, many forms to be filled up. This is hassle for SMEs, thus many would hire consultant or agencies”.</td>
</tr>
<tr>
<td>Networking</td>
<td>PM 3</td>
<td>“Create good or appropriate networking with government’s agencies, vendors or subsidiaries, local suppliers”.</td>
</tr>
<tr>
<td></td>
<td>AC 3</td>
<td>Networking with all contacts - individuals, other firms, government and government support systems, all the forwarding and exporting agents, customs maintain the relationship so that easier to internationalise”.</td>
</tr>
</tbody>
</table>
4.2.4 Summary Findings of Phase I

The results of Phase I via Experts interviews identified seven influences as contributing factors to the SME internationalisation in the manufacturing sector. These included domestic, globalisation and liberalisation conditions, industrial characteristics, business and social networks, government’s incentives and supports, firm factors, and founders or key managers’ characteristics. The key influence for SME internationalisation was the “networking with all contacts”. These findings demonstrate that the internationalisation process is influenced by many factors and is complex. Next, the findings and analysis from the in-depth interviews are presented.

4.3 The In-Depth Interview Findings

This section presents the results of the in-depth interviews conducted in 54 SMEs in various manufacturing industries. Again, results are based on integrated quantitative and qualitative analysis. The quantitative analysis involved frequency counts of the participating SMEs (N=54) and percentages. The qualitative analysis used selective coding of the interview scripts to arrive at themes and categories pertaining to the research questions. The categories were derived inductively from the data during the process of coding and analysis using both NVivo7 and manual analysis. Response patterns were also compared to the theoretical considerations drawn from the literature.

As advised by anchor qualitative researchers (Eisenhardt, 1989; Miles et al., 1994; Yin, 1994), the discussion incorporates relevant phrases from the in-depth interviews
to express the experience and view points of the key executives. To protect respondents’ identities, the data were coded by numbers within the specific industries. The analysis and discussion is organised into the following themes: Respondent profiles and characteristics, Internationalisation awareness, the internationalisation process, the driving forces and key drivers influencing internationalisation. The determinants of the influential factors and finally a comparison to the conceptual framework are drawn to identify an integrated Malaysian Model.

4.4 Profiles and Characteristics

4.4.1 General Information of the Firms

In total, fifty-four interviews were conducted. The 54 firms were classified into seven industries, using industry specific codes. Table 4.5 shows the distribution pattern and general information about the firms.

<table>
<thead>
<tr>
<th>No</th>
<th>Industry</th>
<th>Code</th>
<th>No. of Firms</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Electrical &amp; Electronics</td>
<td>Electrical (EE)</td>
<td>8 (EE1-EE8)</td>
<td>14.8%</td>
</tr>
<tr>
<td>2</td>
<td>Agro Manufacturing</td>
<td>AgroMan (AG)</td>
<td>6 (AG1-AG6)</td>
<td>11.1%</td>
</tr>
<tr>
<td>3</td>
<td>Food &amp; Beverages</td>
<td>FoodBev (FB)</td>
<td>8 (FB1-FB8)</td>
<td>14.8%</td>
</tr>
<tr>
<td>4</td>
<td>Rubber &amp; Plastic-based</td>
<td>RubPlas (RP)</td>
<td>6 (RP1-RP8)</td>
<td>11.1%</td>
</tr>
<tr>
<td>5</td>
<td>Transport &amp; Machinery</td>
<td>TransMach (TM)</td>
<td>8 (TM1-TM8)</td>
<td>14.8%</td>
</tr>
<tr>
<td>6</td>
<td>Biotechnology &amp; Herbal</td>
<td>BioHerb (BH)</td>
<td>9 (BH1-BH8)</td>
<td>16.7%</td>
</tr>
<tr>
<td>7</td>
<td>Wood-based &amp; Furniture</td>
<td>WoodFurn (WF)</td>
<td>9 (WF1-WF8)</td>
<td>16.7%</td>
</tr>
</tbody>
</table>

\[N_{(Industry)} = 7\]

\[N_{(SMEs)} = 54\]

100
The eight Electrical and Electronics industries were coded as ‘Electrical’ (EE1–EE8). Next, the six Agro Manufacturers were coded as ‘AgroMan’ (AG1–AG6). The eight Food and Beverages SMEs were coded as ‘FoodBev’ (FB1–FB8). The six Rubber and Plastic-based manufacturers were coded as ‘RubPlas’ (RP1–RP6). The eight Transport and Machinery Equipment manufacturers were coded as ‘TransMach’ (TM1–TM8). The nine Biotechnology and Herbal products were coded as ‘BioHerb’ (BH1–BH9). Finally, the nine Wood-based and Furniture manufacturers were coded as ‘WoodFurn’ (WF1–WF9).

4.4.2 Profiles of the Participating SME Companies

Based on the demographic data, the profile of the participating SMEs, such as: firm size, business type, share status, ethnic of firm, position, place of education, gender and age were identified. These are illustrated in Tables 4.6 and 4.7.

Table 4.6: Profiles of the SME Companies (Size, Type, and Ownership)

<table>
<thead>
<tr>
<th>Industry</th>
<th>Code</th>
<th>Firm Size</th>
<th>Business Type</th>
<th>Ownership Status</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Small 5≥50 empl.</td>
<td>Med. 51≥300 empl.</td>
<td>Industrial Linkages Prog. (ILP)</td>
</tr>
<tr>
<td>Electrical</td>
<td>EE1-EE8</td>
<td>5</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>AgroMan</td>
<td>AG1-AG6</td>
<td>3</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>FoodBev</td>
<td>FB1-FB8</td>
<td>3</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td>RubPlas</td>
<td>RP1-RP6</td>
<td>2</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>TransMach</td>
<td>TM1-TM8</td>
<td>1</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>BioHerb</td>
<td>BH1-BH9</td>
<td>7</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>WoodFurn</td>
<td>WF1-WF9</td>
<td>4</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Subtotal (%)</td>
<td>25</td>
<td>29</td>
<td>18</td>
<td>11</td>
</tr>
</tbody>
</table>

187
Table 4.7: Profiles of the SME Companies (Establishment and Ethnicity)

<table>
<thead>
<tr>
<th>Industry</th>
<th>Establishment of Firm</th>
<th>Owner Ethnicity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electrical</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>AgroMan</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>FoodBev</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>RubPlas</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>TransMach</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>BioHerb</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>WoodFurn</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>6</strong></td>
<td><strong>11</strong></td>
</tr>
<tr>
<td></td>
<td><strong>11%</strong></td>
<td><strong>21%</strong></td>
</tr>
</tbody>
</table>

4.4.2.1 Size

As Table 4-6a illustrates a relatively even distribution between small and medium-sized firms, with 25 firms (46%) small-sized and 29 (54%) medium-sized SME participants. The TransMach Industries had the most medium sized firms (7 of 8 firms), while the BioHerb Industries were dominated by small-sized companies (7 of 9 firms).

4.4.2.2 Business Type

The business types were identified as follows: 33% are involved with the industrial linkages programmes (ILPs), 21% are government linked companies (GLCs), and 46% are family businesses. The industrial linkages programmes are mainly involved in the FoodBev and TransMach Industries. Of the 8 firms in the TransMach Industry, 7 are linked to the industrial linkages programmes and government linked companies, and one is a family Business; although it was formerly under the industrial linkages programmes but exited from the programme due to a split of ownership with the foreign partner. The government linked companies covered the
Electrical Industry. The BioHerb Industry was monopolised by family business (7 of 9 firms). The other two are the government-linked companies, linked to the Malaysia Technology Development Corporation.

4.4.2.3 Ownership Status

Of the respondents, 70% were wholly-owned by local shareholders, while 30% shared ownership with foreigners. All the BioHerb SMEs were owned by locals, while the highest shared ownership was among the TransMach firms.

4.4.2.4 Firm Establishment

The firms were established over a broad range of years. Sixty percent of the firms were established from 1990 onwards. Twenty-one percent were founded between 1981 to 1989 and only 11% (6 firms) were established before 1980. The oldest firm was established in 1951 as backyard family business in the FoodBev Industry; whereas the newest establishment was in early 2005 in the BioHerb Industry. All of the participating BioHerb companies were established after 1980.

4.4.2.5 Owner Ethnicity

In terms of firm ethnicity, 63% of the firms were owned by Malays, 24% were owned by Chinese, 9% by Indians and 4% were classified as other ethnic groups. The Malays have substantial ownerships in the BioHerb and FoodBev Industries, while the Chinese owned many of the Electrical and TransMach Industry companies.
4.4.3 Profiles of the Key Executives

The profiles of key executives such as position, place of education, gender and age are illustrated in Table 4.8.

Table 4.8: Profiles of the Key Executives

<table>
<thead>
<tr>
<th>Industry</th>
<th>Position</th>
<th>Place of Education</th>
<th>Gender</th>
<th>Age (Years old)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Founder</td>
<td>CEO</td>
<td>Key Mgr</td>
<td>Local</td>
</tr>
<tr>
<td>Electrical</td>
<td>7</td>
<td>0</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>AgroMan</td>
<td>5</td>
<td>0</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>FoodBev</td>
<td>5</td>
<td>0</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>RubPlas</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>TransMach</td>
<td>3</td>
<td>1</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>BioHerb</td>
<td>5</td>
<td>1</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>WoodFurn</td>
<td>7</td>
<td>0</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>34</strong></td>
<td><strong>4</strong></td>
<td><strong>16</strong></td>
<td><strong>31</strong></td>
</tr>
<tr>
<td><strong>(%)</strong></td>
<td><strong>63%</strong></td>
<td><strong>7%</strong></td>
<td><strong>30%</strong></td>
<td><strong>57%</strong></td>
</tr>
</tbody>
</table>

4.4.3.1 Position

Table 4.7 shows the role each of the key executives held. Of the total, thirty-four (63%) were the founders and CEOs of the firm, only four (7%) were CEOs who took over the position from the parents, partners or a spouse. Sixteen (30%) were employed as Chief Operation Manager, Marketing Manager, Business Development Executive, or International Marketing and Promotion Executive. All were directly involved in the internationalisation process so can provide accurate information.
4.4.3.2 Education (Level and Place)

The majority of the key executives were well educated. Five respondents (9.3%) completed the Malaysian high school certificate, forty-one (75.9%) had their diploma and/or degree, and eight (14.8%) completed Masters and/or PhD. Overall, thirty-one (57%) obtained their tertiary and high school education locally in Malaysia, while twenty-three (43%) received their degree abroad.

4.4.3.3 Gender

In terms of gender, 85% were males and the rest were females (15%). Female executives were mainly active in the non-heavy industry sectors. For example, six female executives were associated with craft products, personal care and traditional biscuits. Only two female were involved in administration positions in a heavy industry, such as RubPlas and TransMach.

4.4.3.4 Age

Ages of respondents range from 26 to more than 56. Ninety-three percent were age 35 and above which indicates their maturity, and high level of confidence in providing inputs to the study. The youngest was a female respondent aged 26 who administered her parent’s company, and the oldest respondent was aged 65.

4.5 Structure of the Analysis

The analysis examines the four key research issues as demonstrated in Figure 4.2. It begins with an examination of the firms’ awareness toward internationalisation, and their pattern of internationalisation, including the pace, pattern, mode of entry and
markets scope. Next, the driving forces in terms of motivating and inhibiting factors for internationalisation and the key drivers in regards to firm and key personnel factors affecting internationalisation are examined. The results across the groups were interrogated.

Figure 4.2: Structure of Analysis

Source: Developed for this thesis

4.6 The Internationalisation Awareness

This section examines the first question of the study: “How is awareness about firm internationalisation created among SMEs in various manufacturing industries”?

Some respondents found the term ‘internationalisation’ jargonistic and preferred the term ‘International Business’. Many respondents viewed the two terms as
synonymous, so they were used interchangeably depending on the preference of the interviewee. Their comments focus on the outward process, markets, resources, foreign sales, networking and requirements. A sample of relevant comments that explores their internationalisation orientation is outlined in Table 4.9.

Table 4.9: Understanding of the Term Internationalisation

<table>
<thead>
<tr>
<th>Issues</th>
<th>Relevant Interview Scripts</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Outward Process</strong></td>
<td>“If I am doing exports, I am engaged in International business” [AG5].</td>
</tr>
<tr>
<td></td>
<td>“International business is more on exporting the products” [RP5].</td>
</tr>
<tr>
<td></td>
<td>“When we bring our products out of Malaysia, we are talking about internationalisation” [TM3].</td>
</tr>
<tr>
<td><strong>Markets</strong></td>
<td>“From local players to international players” [WF6].</td>
</tr>
<tr>
<td></td>
<td>“Wide market compared to local. The potential is very big” [AG2].</td>
</tr>
<tr>
<td></td>
<td>“We know our products, but we do not know the international markets” [WF5].</td>
</tr>
<tr>
<td><strong>Resources</strong></td>
<td>“We need somebody who is expert in cross boarder activities” [WF5].</td>
</tr>
<tr>
<td></td>
<td>“We have to identify good products and good pricing” [RP6].</td>
</tr>
<tr>
<td><strong>Foreign Sales</strong></td>
<td>“A company’s overseas sales are at least more than 50%. Otherwise we are still local company” [WF9].</td>
</tr>
<tr>
<td><strong>Networking</strong></td>
<td>“SME Internationalisation is more toward networking. The SMEs can benefit by becoming vendors to bigger companies or to be linked with big players or companies” [AG6].</td>
</tr>
<tr>
<td><strong>Opportunity</strong></td>
<td>“New market share, meaning that you look for opportunities” [WF5].</td>
</tr>
<tr>
<td><strong>Requirements</strong></td>
<td>“You must know about the requirements, the technology and so on of those countries that you want to penetrate” [RP5].</td>
</tr>
<tr>
<td></td>
<td>“The requirement of each country is different. Each country has its own policy and peculiarities. Registration is different from one country to another country; clearing of the products; the perception of the people on the products” [BH3].</td>
</tr>
</tbody>
</table>

The next question asked how the SMEs became aware of international opportunities.
4.6.1 Source of Information on the Internationalisation Awareness

Notably from the findings is that the majority of key executives referred to network relationships as the most substantial source for obtaining information. The following comment is indicative of the responses, “I think the biggest thing is the connection. Networking is how you make all the ways” [RP4]. Various sources, from policy makers to other people, at the national and global levels were identified.

“...After so long in the business, you know where to seek for information. Apart from the information given by the government, your business colleagues, people write to you personally. You have to establish your local and international contacts. When the chain is there, you’ll find it so much easier to penetrate into global market” [EE5].

Altogether 60 items were gathered to explain the sources of internationalisation awareness. These sources were divided into four categories, which include: 1) Institutions (35 items); 2) Other Business Players (10 items); 3) Personal Relations (10 items); and 4) Other Sources (5 items). Quantitative and qualitative analysis were used to explore these categories as discussed below.

4.6.1.1 Institutions

Of the 60 items, 35 were associated with the institutions, and counted for 58% of total sources about internationalisation awareness. The institutions include the ministries and other supporting government agencies or international bodies that are the main sources of information on foreign markets. Table 4.10 shows the six categories of institutions and their frequency for each industry.
### Table 4.10: Institutions as Sources of Internationalisation Awareness

<table>
<thead>
<tr>
<th>SOURCES</th>
<th>INDUSTRIES</th>
<th>Sample: % (N=54)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Government and Semi-government Bodies (12 Bodies)</td>
<td>Electrical (n=8)</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>Agriculture (n=6)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Food and Beverage (n=8)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rubber and Plastics (n=6)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Textiles and Machinery (n=8)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>BioHerb (n=9)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Wood and Furniture (n=9)</td>
<td></td>
</tr>
<tr>
<td>2. Ministries (6 Ministries)</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>3. SMI Agencies (6 Agencies)</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>4. International Trade Organisations (6 Bodies)</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>5. Non-Government Organisations – NGOs (3 Bodies)</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>6. Foreign Bodies (2 Bodies)</td>
<td></td>
<td>1</td>
</tr>
</tbody>
</table>

**NOTE:** $n =$ number of participating SMEs in each industry

In all twelve government and semi-government bodies were mentioned, including MARA, MIDA, MATRADE, FAMA\(^{10}\), MIHAS\(^{11}\), MARDI\(^{12}\), MTIB\(^{13}\), TNB\(^{14}\), MPOB\(^{15}\), Handcraft Associations, FMM, and JAKIM\(^{16}\). Six ministries, including the Prime Ministers Department, Ministry of Entrepreneurship and Cooperative Development, MITI, Ministry of Agriculture, Ministry of Internal Affairs and MOSTI\(^{17}\), were all sources of information for 28% of the SMEs. Similarly, six principal small to medium industry (SMI) agencies, such as Small and Medium Industries Development Corporation, (SMIDEC), Malaysian Technology Development Corporation (MTDC), Malaysian Industrial Development Finance (MIDF), Malaysian Industrial Estate Limited (MIEL), Malaysian Productivity

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\(^{10}\) FAMA – Federal Association of Malaysia Agriculture  
\(^{11}\) MIHAS – Malaysia International Halal Showcase  
\(^{12}\) MARDI – Malaysian Agriculture Research and Development Institutions  
\(^{13}\) MTIB – Malaysia Timber Industrial Board  
\(^{14}\) TNB – Tenaga National Berhad (National Power Limited)  
\(^{15}\) MPOB – Malaysia Palm Oil Board  
\(^{16}\) JAKIM – Jabatan Kemajuan Islam Malaysia (Department of Islamic Development, Malaysia)  
\(^{17}\) MOSTI – Ministry of Science, Technology & Innovation, Malaysia
Centre (MPC) and Standards and Industrial Research Institute of Malaysia (SIRIM) contributed to providing information to the SMEs.

The following quotes demonstrate the support the agencies provide in assisting companies to internationalise. The agencies mentioned in the quotes are underlined.

“The Ministry of Agriculture Malaysia invited us to participate in the international exhibition for agro products [AG6].

“I have good rapport with SMIDEC, MATRADE, MPC and the MECD. So I have the opportunity to go for higher management trainings overseas” [WF5].

“We joined the Malaysia Timber Industry Board (MTIB). Then we join the Malaysian Hand Craft Organisation. With the help of MITI (the Ministry of International Trade and Industry), we started our international operation” [WF3].

“MATRADE and MARA introduced us to business matching. It is through Government-to-government, MATRADE provides a lot of information and also opportunities” [BH6].

“We linked with the ‘Smart Partnership Programme’ through the government agriculture agencies, such as FAMA and MARDI” [AG1].

As well as the government and semi-government institutions, 11% of the key executives from the RubPlas and TransMach referred to three non-government organisations (NGOs) as providers of information on international opportunities, such as Malay Chambers of Commerce, Foreign Chambers of Commerce and Malaysian Plastic Manufacturing Associations. For example:

“The company also is registered with Dewan Perniagaan Melayu Selangor (Malay of Selangor Chamber of Commerce)” [RP1].
“I also join the NGOs association such as the Malaysian Plastic Manufacturing Association (MPMA). From MPMA we get information about the industry” [RP5].

“There was one Germany company that I used to work with and some friends introduced me to the German Chamber of Commerce” [TM6].

“We registered with the Malaysian Plastic Manufacturing Association (MPMA), from there we were able to gain awareness and learn about potential customers overseas. Normally MPMA will give us brochures about overseas’ connections” [TM2].

In addition, international trade organisations and foreign organisations also provided information. Six international trade organisations, including the EABEX, OIC, APEX, IFA, AFTA and Asia-Japan Trade Centre were the source of information. One entrepreneur admitted, “We receive a lot of enquiries from Japan especially through the Asia – Japan Trade Centre” [AG6]. Another stated that since the firm was selected to represent Malaysia in the Organisation of Islamic Conference (OIC) trade forum in 2005, abundant information was obtained from foreign participants, such as the People’s Republic of China and the Middle East [BT2]. Another sample who supplied products for regional sport and game events announced that information was gained through a specific international body:

“International bodies such as IFA (International Fitness Associations) have dealers and distributors around the world, so we participated in conferences. From there we know the dealers” [EE1].

Foreign bodies, including the embassies and its related associations, such as the ladies groups were also pertinent sources of information. Although only 7% of the respondents mentioned this, they claimed it made the opportunities for overseas
expansion easier. For example, one respondent who had known many foreign ambassadors’ wives based in Malaysia stated:

“I gained international awareness from my experience with foreign embassies, such as Indonesia, Philippines, Vietnam, and Thailand. I associate through the ladies circles” [RP4].

Nevertheless, the findings overall suggest that industries choose certain institutions that they see as relevant sources of information.

### 4.6.1.2 Other Business Players

The second category for sources of international awareness involves ‘other players’. From the findings, ten items (of 60 items - 17%) emerged in relation to networking with other players. Table 4.11 presents the sources of other players.

<table>
<thead>
<tr>
<th>SOURCES</th>
<th>ELECTRICAL (n=8)</th>
<th>AGROMAN (n=6)</th>
<th>FOODBEV (n=8)</th>
<th>RUBPLAS (n=6)</th>
<th>TRANSMACH (n=8)</th>
<th>BIOTHERM (n=9)</th>
<th>WOODFURN (n=9)</th>
<th>Sample: % (N=54)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Other Suppliers / Companies</td>
<td>4</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>5</td>
<td>6</td>
<td>5</td>
<td>25: (46%)</td>
</tr>
<tr>
<td>2. Foreign Partners</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>18: (33%)</td>
<td></td>
</tr>
<tr>
<td>3. Foreign Customers / Clients</td>
<td>3</td>
<td>-</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>6</td>
<td>18: (33%)</td>
<td></td>
</tr>
<tr>
<td>4. Business Associates</td>
<td>2</td>
<td>-</td>
<td>1</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>8</td>
<td>17: (31%)</td>
</tr>
<tr>
<td>5. Agents and Distributors</td>
<td>2</td>
<td>-</td>
<td>3</td>
<td>-</td>
<td>2</td>
<td>1</td>
<td>4</td>
<td>12: (22%)</td>
</tr>
<tr>
<td>6. Professionals</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>-</td>
<td>11: (20%)</td>
</tr>
<tr>
<td>7. Local and Foreign MNCs</td>
<td>4</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>2</td>
<td>-</td>
<td>3</td>
<td>10: (19%)</td>
</tr>
<tr>
<td>8. Global Supply Chain</td>
<td>-</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>-</td>
<td>8: (15%)</td>
</tr>
<tr>
<td>9. International Marketing teams</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>7: (13%)</td>
</tr>
<tr>
<td>10. Parent Companies</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>4</td>
<td>-</td>
<td>-</td>
<td>5: (9%)</td>
</tr>
</tbody>
</table>
From the quantitative analysis, it was evident that the manufacturing SMEs in various industries mainly relied on the other suppliers/companies, foreign partners, customers/clients and business associates for information about international awareness. One interviewee stated, “The vendors, colleagues, business associates, clients would tell about the business opportunities abroad” [RP1].

Some participating SMEs were suppliers for Japanese MNCs, particularly in those Electrical and TransMach Industries. Japanese company suppliers or the business groups are known as ‘keiretsu’ which represents a network of knowledge and close relationships between member suppliers that fosters good information flow (Delios & Henisz, 2001). Interestingly, interviews revealed even where partnerships had ended, the Japanese MNCs would still look after the welfare of their previous supplier firms, for example:

“In this steel industry, it is difficult to penetrate overseas. But, this is one thing about our Japanese partners. Although we are not partners anymore, if you get close with them, you become their ‘keiretsu’ member. They remember you forever. They introduced us to their vendors in other countries. So, there is an avenue for us to go out”[TM1].

Another Japanese concept ‘sogo shosha’, which is a Japanese term for general trading companies (Anand & Delios, 2001) was also mentioned in the interviews. ‘Sogo shosha’, allows a Japanese supplier to be linked with parent companies and their associates through business matching. At least one respondent saw a similarity with the business matchings between the Malaysian SMEs with foreign firms conducted by the government agencies (e.g. MATRADE and SMIDEC) to create international awareness.
“The government agencies organise business matching with companies abroad. They actively seek out prospective clients overseas and supply to us. I think something like the Japanese concept, ‘sogo shosha’, helping out the SMEs in business matching and the companies have strong bonds with each other. If we can develop that kind of bonding in Malaysia, I believe that there’s a lot of potential for the Malaysian SMEs to go abroad” [BH7].

These findings suggest that the merits of the internationalisation awareness are interrelated. It involves institutions to other players, who are linked by networking with many sources, including personal relationships.

4.6.1.3 Personal Relations

The findings show that ten items (of the total 60 items) were related to personal relations, as presented in Table 4.12.

Table 4.12: Personal Relations as Sources of Internationalisation Awareness

<table>
<thead>
<tr>
<th>SOURCES</th>
<th>INDUSTRIES</th>
<th>Electrical (n=8)</th>
<th>AgroMan (n=6)</th>
<th>FoodBev (n=8)</th>
<th>RubPlas (n=6)</th>
<th>TransMach (n=8)</th>
<th>BioHerb (n=9)</th>
<th>WoodFurn (n=9)</th>
<th>Total - N=54 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Networking (with all)</td>
<td>8</td>
<td>3</td>
<td>7</td>
<td>6</td>
<td>6</td>
<td>9</td>
<td>9</td>
<td>48 (89%)</td>
<td></td>
</tr>
<tr>
<td>2. Specific International Exhibitions</td>
<td>3</td>
<td>2</td>
<td>7</td>
<td>4</td>
<td>3</td>
<td>6</td>
<td>8</td>
<td>33 (61%)</td>
<td></td>
</tr>
<tr>
<td>3. Friends Networks</td>
<td>1</td>
<td>3</td>
<td>2</td>
<td>5</td>
<td>-</td>
<td>4</td>
<td>7</td>
<td>22 (41%)</td>
<td></td>
</tr>
<tr>
<td>4. Personal Communications</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td>4</td>
<td>19 (35%)</td>
<td></td>
</tr>
<tr>
<td>5. Travelling</td>
<td>4</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>14 (26%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Previous Working Contacts</td>
<td>2</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>2</td>
<td>-</td>
<td>3</td>
<td>9 (17%)</td>
<td></td>
</tr>
<tr>
<td>7. Colleagues Networks</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>-</td>
<td>1</td>
<td>4</td>
<td>9 (17%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Families Contacts</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>1</td>
<td>-</td>
<td>1</td>
<td>4</td>
<td>8 (15%)</td>
<td></td>
</tr>
<tr>
<td>9. Political networks</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3</td>
<td>7 (13%)</td>
<td></td>
</tr>
<tr>
<td>10. Specific International Seminars</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>1</td>
<td>5 (9%)</td>
<td></td>
</tr>
</tbody>
</table>
The table shows how personal relations become the sources of information and indicates that most had been associated with the type of networking. Eighty-nine percent mentioned that networking at all levels, with a range of people could ease the internationalisation process. Some believed that in order to gain trust in networking, subtle relationships must be developed. One way of doing this was through personal communications, as illustrated in this quotation:

“Sometimes I made personal visit to my principals, or partners. This was not to gain profits, or to set up contracts but just personal visits. We just talk, have lunch, dinner and come back. That strengthens the relationship! And that is a good kind of relationship” [EE8].

There was also evidence that networking was created at international exhibitions or seminars or through travelling abroad. Notwithstanding these are costly events, but there are many gains and most importantly, information could be exchanged, for example:

“Participation in the international trade fairs is an expensive means. We can get potential buyers, but to fly to the places and participate needs a lot of money. For a person or two to go to the trade show, we spend 10-20 thousand Ringgit (up to USD5K). But it is a good and effective way of getting buyers, expanding networking, getting new ideas on designs” [WF9].

In another example of the benefit of travel, EE8 stated:

“After I travel to many places and meet so many clients and partners, I have a lot of exposures which make me see things differently and make me want to move further. I feel more mature, more confident of myself. As you make contacts, you’re more exposed to their styles, and you build up stronger relationship with partners. They even help me with my financial difficulties” [EE8].

Networking with friends, relatives, colleagues and previous employments helped information flow into a firm because of unconditional relationships. The Malaysian
SMEs emphasized the importance of bond of relationships, as mentioned by one CEO:

“Business is like making friends; it will take some time to know each other. Once you get the confidence level, it is a full circle. Because you have created the bonding” [EE2].

Personal relations are also related to other elements such as founders’ previous positions and experience, which in turn increased credibility and authenticity of the information gathered, and these provided strong grounds for obtaining relevant information, as the following quotation illustrates:

“Our sources of contact are various. Mainly through our chairman, who actually has been involved with the corporate sector for more than 20 years. He also has got some international contacts because he has been involved with automotive component business” [BH7].

The findings revealed that tactful personal communications broke the barriers with human contacts. The following comment demonstrates how personal relations help to create international awareness:

“Whatever it is, I think the human factor is still number one. Even though you have good products - you need people - you need to reveal yourselves. Get to know these people. It is a great help. Actually when you go for the business trips, you have so much opportunity to create networking, to get to know other business people, to get support from the government. Since we go with government delegates, we have the chance to know the politicians, the VIPs in which we may not find time in Malaysia, but with the overseas trips, we are able to know each other. But as I mentioned earlier it goes back to the human factor” [WF5].

This statement also demonstrates that diplomatic communications with politicians and or high-ranked officials are important for the SMEs in realising their firms’ internationalisation process.
4.6.1.4 Other Sources

Table 4.13 presents the details of ‘other sources’ to internationalisation awareness. These include various sources of information, such as internet or websites, market research, specific reading materials, knowledge and learning and observations. The table shows that 76% of the participating SMEs in all industries utilised internet or websites to gather information on international opportunities. This indicates that face-to-face networking with people was supplemented by technology-based interactions as well. Reaching people all over the world, at the same time, is now possible because of the internet.

Table 4.13: Other Sources of Internationalisation Awareness

<table>
<thead>
<tr>
<th>SOURCES</th>
<th>ELECTRICAL (n=8)</th>
<th>AGROMAN (n=6)</th>
<th>FOODBV (n=8)</th>
<th>RUBPLAS (n=6)</th>
<th>TRANSMACH (n=8)</th>
<th>BIOHERB (n=9)</th>
<th>WOODFURN (n=9)</th>
<th>TOTAL N=54 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Internet / Website</td>
<td>6</td>
<td>4</td>
<td>6</td>
<td>5</td>
<td>7</td>
<td>6</td>
<td>7</td>
<td>41 (76%)</td>
</tr>
<tr>
<td>2. Market Research</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>15 (28%)</td>
</tr>
<tr>
<td>3. Specific Reading Materials</td>
<td>2</td>
<td>2</td>
<td>-</td>
<td>1</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>13 (24%)</td>
</tr>
<tr>
<td>4. Knowledge and learning</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>12 (22%)</td>
</tr>
<tr>
<td>5. Observations</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>7 (13%)</td>
</tr>
</tbody>
</table>

The SMEs in this study realised the importance of advanced technology and being aware of global trends. They used the internet and websites to accelerate gathering of information on foreign markets and to gain contacts:

“We promote the company on the internet, we have our own website. Somehow it helps using the internet, since it has become the source of information today. There are many companies in the world involved with the plastics industry, so through internet, we get to know them and we establish relationships” [RP5].
Although the internet and networking are dominant sources of information, self-observation provided another useful option to gain information, and this approach was particularly pertinent in the AgroMan Industry, for example, “I go to see the agriculture industry in other countries, and I compare them with the Malaysian market” [AG1]. Through observation, the SMEs conducted their own research on potential markets. As observed in the RubPlas Industry, “We observe the market, then we realise the possibility is there. So I assigned my officers to do market research” [RP3]. Other sources of information included individual capabilities, such as expertise, knowledge and learning ability and these help “build up our confidence level to internationalise” [WF5].

4.6.2 Summary Findings of Internationalisation Awareness

In conclusion, internationalisation awareness was created mainly through networks of founders, owners or key personnel with institutions, other business players, and networks of founders/managers via personal relations. Based on the findings, Figure 4.3 summarises how, who and what caused the internationalisation awareness for the Malaysian SMEs in various industries.

The results show that the internationalisation process of Malaysian SME firms has the following three important related dimensions: internationalisation preconditions, entry mode and market, and internationalisation process patterns. The Malaysian SMEs learn of opportunities and processes through government linkages, networking with other players and from personal contacts as well as other sources such as internet, market research, reading and observations. The key actors in firms create networking opportunities with other domestic players, and then gradually move to
the international level through long-term relationships. Ultimately, convergence of the various types of interactions and through multi-linkages with different agencies and institutions strengthen the founders’ network, providing more avenues to access to international opportunities.

Figure 4.3: Development and Dimensions of Internationalisation Awareness

<table>
<thead>
<tr>
<th>INTERNATIONALISATION AWARENESS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>D1: Types of Network</strong></td>
</tr>
<tr>
<td><strong>Domestic:</strong></td>
</tr>
<tr>
<td>• Malaysia-based SMEs in the Industrial Linkages Programmes and Government Linked Companies;</td>
</tr>
<tr>
<td>• Malaysia-based SMEs to foreign partners/shareholders/subsidiaries;</td>
</tr>
<tr>
<td>• Malaysia-based SMEs to loca and global MNCs to international markets;</td>
</tr>
<tr>
<td>• Malaysia-based SMEs to local suppliers to international customers;</td>
</tr>
<tr>
<td>• Malaysia-based SMEs to agents to international distributors;</td>
</tr>
<tr>
<td>• Malaysia-based SMEs to agents to international end users /customers;</td>
</tr>
<tr>
<td><strong>International:</strong></td>
</tr>
<tr>
<td>• <strong>G2G</strong> - Malaysian International Bodies to Foreign Governments International Agencies</td>
</tr>
<tr>
<td>• <strong>G2B</strong> - Malaysian International Bodies to Independent Foreign International Agencies</td>
</tr>
<tr>
<td>• <strong>B2B</strong> – International Players/Agents to International Players/Agents/ Clients</td>
</tr>
<tr>
<td><strong>D2: The Creation of Networks</strong></td>
</tr>
<tr>
<td><strong>Institutions:</strong></td>
</tr>
<tr>
<td>• <strong>Sources:</strong> Ministries; Government &amp; Semi-government Agencies; NGOs; International Trade Associations; Foreign Embassies</td>
</tr>
<tr>
<td>• <strong>How:</strong> International Trade Missions; Business Matchings; International Economic Cooperation</td>
</tr>
<tr>
<td><strong>Other Players:</strong></td>
</tr>
<tr>
<td>• <strong>Sources:</strong> MNCs; Parent Companies; Suppliers; Business Associates; Agents;</td>
</tr>
<tr>
<td>• <strong>How:</strong> Global Supply Chains; Participate in National and International trade fairs / exhibitions; Internet; International Marketing Teams; Market Research</td>
</tr>
<tr>
<td><strong>Personal Relations:</strong></td>
</tr>
<tr>
<td>• <strong>Sources:</strong> Local &amp; Foreign Partners; Families; Friends; Colleagues; Previous Employment;</td>
</tr>
<tr>
<td>• <strong>How:</strong> Attend National and International trade fairs/exhibitions/seminars; Written &amp; Verbal Communications; Maintain close contacts; Observations; Experience and Knowledge</td>
</tr>
</tbody>
</table>

*Sources: Developed from the examination of Research Question 1*

*NB: D1 and D2 – Dimensions of Internationalisation Awareness*


The next section analyses the dimensions of internationalisation and provides evidence for the factors influencing the patterns of internationalisation process.
4.7 The Internationalisation Process

This section examines Research Question 2: “How can the internationalisation process of the SMEs in various industries be described”? Specifically, what pattern and pace of internationalisation do Malaysian SMEs follow? What mode of foreign entries, market selections and number of markets influence the process?

This question investigates the dimensions and the patterns demonstrated by various SME industries in Malaysia. Five dimensions of the internationalisation process were examined and these include: 1) Pace, 2) Pattern, 3) Mode of Foreign Entry, 4) Market Selections and 5) Number of Markets. These findings identify the internationalisation patterns and their characteristics. Next examined were the patterns of internationalisation, including the traditional, rapid and born global patterns.

4.7.1 Dimensions of Internationalisation

4.7.1.1 Pace of Internationalisation

The pace of internationalisation was assessed through the question, “When was the first time your company started to internationalise?” Comparing the establishment year of the firm to the first time the firm entered foreign markets, the pace was classified into five categories. The findings ranging from 1 to 5 years to more than 20 years, are demonstrated in Table 4.14.
Table 4.14: Pace of Internationalisation

<table>
<thead>
<tr>
<th>Industry</th>
<th>1 to 5 years</th>
<th>6 to 10 years</th>
<th>11 to 15 years</th>
<th>16 to 20 years</th>
<th>More than 20 years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Freq</td>
<td>%</td>
<td>Freq</td>
<td>%</td>
<td>Freq</td>
</tr>
<tr>
<td>Electrical</td>
<td>6</td>
<td>75%</td>
<td>0</td>
<td>0%</td>
<td>0</td>
</tr>
<tr>
<td>AgroMan</td>
<td>2</td>
<td>33%</td>
<td>2</td>
<td>33%</td>
<td>1</td>
</tr>
<tr>
<td>FoodBev</td>
<td>3</td>
<td>38%</td>
<td>2</td>
<td>25%</td>
<td>0</td>
</tr>
<tr>
<td>RubPlas</td>
<td>5</td>
<td>83%</td>
<td>0</td>
<td>0%</td>
<td>0</td>
</tr>
<tr>
<td>TransMach</td>
<td>2</td>
<td>25%</td>
<td>6</td>
<td>75%</td>
<td>0</td>
</tr>
<tr>
<td>BioHerb</td>
<td>5</td>
<td>56%</td>
<td>4</td>
<td>44%</td>
<td>0</td>
</tr>
<tr>
<td>WoodFurn</td>
<td>4</td>
<td>44%</td>
<td>3</td>
<td>33%</td>
<td>2</td>
</tr>
<tr>
<td>Subtotal (%)</td>
<td>17</td>
<td>31%</td>
<td>3</td>
<td>6%</td>
<td>3</td>
</tr>
</tbody>
</table>

Key: Freq - Frequency (N=54)

The pace of 1 to 5 years was strongest in the RubPlas (83%) and the Electrical (75%) industries, although it occurred in all seven industries. The 6 to 10 years pace involved five industries (the AgroMan, FoodBev, TransMach, BioHerb and WoodFurn), but was very strong in the TransMach Industry. Only two industries, (the AgroMan and WoodFurn) internationalised within 11 to 15 years, and in the last two categories, three industries (42.9%) were involved in each pace. The 16 to 20 years pace was found in the Electrical, FoodBev and RubPlas Industries, whereas more than 20 years was demonstrated in the Electrical, AgroMan and FoodBev Industries.

Figure 4.4 illustrates the predominant level of the five paces. Accordingly, 50% of the firms started internationalising after 1 to 5 years of establishment, 31% decided to venture overseas within 6 to 10 years, 7% internationalised after more than 20 years of establishment and 6% each within 11 to 15 years and 16 to 20 years.
Overall, 81% of the participating SMEs internationalised within 1 to 10 years, indicating the pace taken for internationalisation was quite fast.

**Figure 4.4: Pace of Internationalisation**

![Pace of Internationalisation](chart)

<table>
<thead>
<tr>
<th>Pace</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 to 5 years</td>
<td>50%</td>
</tr>
<tr>
<td>6 to 10 years</td>
<td>31%</td>
</tr>
<tr>
<td>11 to 15 years</td>
<td>8%</td>
</tr>
<tr>
<td>16 to 20 years</td>
<td>6%</td>
</tr>
<tr>
<td>More than 20 years</td>
<td>7%</td>
</tr>
</tbody>
</table>

---

4.7.1.2 Pattern of Internationalisation

Internationalisation patterns had three categories: The Traditional pattern is a gradual or incremental process, which takes more than 5 years to internationalise. The Rapid pattern demonstrates rapid business growth domestically and planned rapid international ventures, which takes between 1 to 5 years. The Born Global pattern where the firm internationalises immediately after commencement. Table 4.15 shows the pattern of internationalisation within industries.
### Table 4.15: Pattern of Internationalisation

<table>
<thead>
<tr>
<th>Industry</th>
<th>Traditional</th>
<th>Rapid</th>
<th>Born Global</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Freq</td>
<td>%</td>
<td>Freq</td>
</tr>
<tr>
<td>Electrical (n=8)</td>
<td>2</td>
<td>25%</td>
<td>5</td>
</tr>
<tr>
<td>AgroMan (n=6)</td>
<td>4</td>
<td>67%</td>
<td>0</td>
</tr>
<tr>
<td>FoodBev (n=8)</td>
<td>5</td>
<td>63%</td>
<td>2</td>
</tr>
<tr>
<td>RubPlas (n=6)</td>
<td>2</td>
<td>33%</td>
<td>4</td>
</tr>
<tr>
<td>TransMach (n=8)</td>
<td>5</td>
<td>63%</td>
<td>2</td>
</tr>
<tr>
<td>BioHerb (n=9)</td>
<td>4</td>
<td>44%</td>
<td>4</td>
</tr>
<tr>
<td>WoodFurn (n=9)</td>
<td>5</td>
<td>56%</td>
<td>2</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>27 (50%)</strong></td>
<td><strong>19 (35%)</strong></td>
<td><strong>8 (15%)</strong></td>
</tr>
</tbody>
</table>

Key: Freq - Frequency (N=54)

The *traditional pattern* was observed across all the seven industries but mostly occurred in the AgroMan, FoodBev and TransMach Industries. This indicates that these SMEs are inclined towards incremental or staged internationalisation. The *rapid* and the *born-global patterns* were observed in six industries. The *rapid pattern* was demonstrated most strongly in the RubPlas and Electrical Industries, while the *born-global* occurred in the AgroMan and WoodFurn Industries. In addition, the AgroMan Industry showed no evidence behaving in a *rapid pattern*, while the RubPlas Industry lacked the *born-global pattern*.

Figure 4.5 illustrates the predominant patterns, showing that 50% internationalised gradually utilising the *traditional pattern, 35% followed the rapid pattern, and 15% were firms with the born-global pattern.*
4.7.1.3 Mode of Foreign Entry

Five foreign entry modes were identified: direct exporting, agents, distributors, joint ventures and subcontracting. Table 4.16 summarises the findings on the foreign entry modes.

### Table 4.16: Mode of Foreign Entry

<table>
<thead>
<tr>
<th>Industry</th>
<th>Direct Exporting</th>
<th>Agents</th>
<th>Distributors</th>
<th>Joint Ventures</th>
<th>Subcontracting (Vendor)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Freq</td>
<td>%</td>
<td>Freq</td>
<td>%</td>
<td>Freq</td>
</tr>
<tr>
<td>Electrical</td>
<td>0</td>
<td>0%</td>
<td>0</td>
<td>0%</td>
<td>1</td>
</tr>
<tr>
<td>AgroMan</td>
<td>3</td>
<td>50%</td>
<td>2</td>
<td>33%</td>
<td>1</td>
</tr>
<tr>
<td>FoodBev</td>
<td>2</td>
<td>25%</td>
<td>3</td>
<td>38%</td>
<td>2</td>
</tr>
<tr>
<td>RubPlas</td>
<td>3</td>
<td>50%</td>
<td>1</td>
<td>17%</td>
<td>1</td>
</tr>
<tr>
<td>TransMach</td>
<td>3</td>
<td>38%</td>
<td>2</td>
<td>25%</td>
<td>0</td>
</tr>
<tr>
<td>BioHerb</td>
<td>0</td>
<td>0%</td>
<td>4</td>
<td>44%</td>
<td>3</td>
</tr>
<tr>
<td>WoodFurn</td>
<td>6</td>
<td>67%</td>
<td>0</td>
<td>0%</td>
<td>2</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>17</strong></td>
<td><strong>31%</strong></td>
<td><strong>12</strong></td>
<td><strong>22%</strong></td>
<td><strong>10</strong></td>
</tr>
</tbody>
</table>

*Key: Freq- Frequency (N=54)*

The findings show that industries either used three or four entry modes to foreign markets. For instance, the FoodBev, RubPlas and TransMach Industries ventured
overseas via four modes, while the Electrical, AgroMan, BioHerb and WoodFurn Industries chose three modes. Five industries favoured the *direct exporting* mode; with the two excluded industries being the Electrical and BioHerb. Foreign *agents* were used by five industries, although not by Electrical and WoodFurn. *Distributors* were the entry mode for six industries excluding the TransMach Industry. *Joint ventures* were apparent in four industries (the Electrical, FoodBev, TransMach and BioHerb Industries). Finally, *subcontracting*, which included a vendor system, was an important means for four industries (the Electrical, RubPlas, TransMach and WoodFurn Industries).

Figure 4.6 demonstrates that various foreign entry modes are taken for international operations. Thirty-one percent of the participating SME preferred the *direct exporting*, 22% used agents, 19% used *distributors*, 13% used *joint ventures* and 15% internationalised by the *subcontracting* mode.

**Figure 4.6: Modes of Foreign Entry**
4.7.1.4 Market Selections

When responding to where or which markets the firm was involved with, the key executives mentioned specific but numerous countries. To assist the analysis, countries were arranged into two regions. First, the ‘Nearby Regions’ including countries in regional areas of Southeast Asia, South Asia and East Asia, Australia and New Zealand. Second, the ‘Faraway Regions’ included countries such as the United State of America and Canada, the United Kingdom, Europe, the Middle East and Africa. The market selections were then classified into nearby regions only and nearby and faraway regions. Table 4.17 summarises the market selections of the SMEs in manufacturing industries. Of the participating SMEs, 46% focused only on the nearby regions, whereas 54% selected markets in both nearby and faraway regions, as illustrated in Figure 4.7.

<table>
<thead>
<tr>
<th>Industry</th>
<th>Nearby Region Only</th>
<th>Nearby &amp; Faraway Regions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Freq</td>
<td>%</td>
</tr>
<tr>
<td>Electrical (n=8)</td>
<td>4</td>
<td>50%</td>
</tr>
<tr>
<td>AgroMan (n=6)</td>
<td>3</td>
<td>50%</td>
</tr>
<tr>
<td>FoodBev (n=8)</td>
<td>5</td>
<td>63%</td>
</tr>
<tr>
<td>RubPlas (n=6)</td>
<td>1</td>
<td>17%</td>
</tr>
<tr>
<td>TransMach (n=8)</td>
<td>6</td>
<td>75%</td>
</tr>
<tr>
<td>BioHerb (n=9)</td>
<td>5</td>
<td>56%</td>
</tr>
<tr>
<td>WoodFurn (n=9)</td>
<td>1</td>
<td>11%</td>
</tr>
<tr>
<td>Subtotal (%)</td>
<td>25 (46%)</td>
<td>29 (54%)</td>
</tr>
</tbody>
</table>

Key: Freq - Frequency (N=54)
All the seven industries marketed their products in dual regions, but each exhibited different levels of merit. For example, the nearby regions were mainly favoured by the TransMach, BioHerb and FoodBev Industries. The nearby and faraway regions were choices for the RubPlas and WoodFurn Industries, whereas both the Electrical and AgroMan firms demonstrated equal preference for the two regions.

4.7.1.5 Number of Markets

To identify the number of markets they participated in, respondents were asked “How many markets (or countries) is your company involved with?” The answers were supplemented with information provided on their websites and information obtained from the MATRADE 2006 and FMM 2006 directories and generated the findings summarised in Table 4.18.

Seven industries demonstrated that their SME operated in 1 to 10 countries. Five industries, the AgroMan, FoodBev, RubPlas, BioHerb and WoodFurn chose to do business in 11 to 15 markets. Only the RubPlas ventured into 16 to 20 countries.
Three industries, the Electrical, AgroMan and TransMach) contained firms that operated in more than 20 international markets.

**Table 4.18: Number of Markets (Countries)**

<table>
<thead>
<tr>
<th>Industry</th>
<th>1-5 Markets</th>
<th>6-10 Markets</th>
<th>11-15 Markets</th>
<th>16-20 Markets</th>
<th>More than 20 Markets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Freq</td>
<td>%</td>
<td>Freq</td>
<td>%</td>
<td>Freq</td>
</tr>
<tr>
<td>Electrical</td>
<td>2</td>
<td>25%</td>
<td>5</td>
<td>63%</td>
<td>0</td>
</tr>
<tr>
<td>AgroMan</td>
<td>2</td>
<td>33%</td>
<td>1</td>
<td>17%</td>
<td>1</td>
</tr>
<tr>
<td>FoodBev</td>
<td>3</td>
<td>38%</td>
<td>2</td>
<td>25%</td>
<td>3</td>
</tr>
<tr>
<td>RubPlas</td>
<td>2</td>
<td>33%</td>
<td>2</td>
<td>33%</td>
<td>1</td>
</tr>
<tr>
<td>TransMach</td>
<td>6</td>
<td>75%</td>
<td>1</td>
<td>13%</td>
<td>0</td>
</tr>
<tr>
<td>BioHerb</td>
<td>5</td>
<td>56%</td>
<td>3</td>
<td>33%</td>
<td>1</td>
</tr>
<tr>
<td>WoodFurn</td>
<td>4</td>
<td>44%</td>
<td>4</td>
<td>44%</td>
<td>1</td>
</tr>
<tr>
<td>Subtotal (%)</td>
<td>24</td>
<td>45%</td>
<td>18</td>
<td>33%</td>
<td>7</td>
</tr>
</tbody>
</table>

*Key: Freq: Frequency (N=54)*

Figure 4.8 shows the number of markets taken by the firms. Overall, 77% of the participating SMEs ventured into ten markets all over the world. Fifteen percent internationalised into 11 to 20 markets and 8% into more than 20 markets.

**Figure 4.8: Number of Markets**
4.7.2 Summary Findings of Dimensions to Internationalisation

A summary of the overall dimensions of the internationalisation process, in terms of pace, pattern, entry mode, market selection and number of markets, of the 54 SMEs is shown in Figure 4.9, whereas Table 4.1 summarises these dimensions by industry.

Figure 4.9: Overall Dimensions of Internationalisation

Source: Developed for this thesis
### Table 4.19: Distinctive Features of Dimensions of Internationalisation in Industries

<table>
<thead>
<tr>
<th>INDUSTRY</th>
<th>Dimensions</th>
<th>Pace</th>
<th>Pattern</th>
<th>Foreign Entry Mode</th>
<th>Market Selection</th>
<th>Number of Markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electrical</td>
<td>All 3 patterns exist - Rapid, Traditional then born global; Follow the rapid pattern ↑- Rapid Pattern (63%)</td>
<td>Mixed paces - Fastest to slowest; Very early to late global players ↑- 1 to 5 years (75%)</td>
<td>3 modes used - Subcontracting, joint ventures then distributors High to low commitment; Strong evidence of subcontracting. ↑- Subcontracting (50%)</td>
<td>Equally covered the world regions; Physical distant &amp; close markets; No physic distance.</td>
<td>Average in less than 10 markets Also evidence in more than 20 markets ↑- 6-10 markets (63%)</td>
<td></td>
</tr>
<tr>
<td>AgroMan</td>
<td>2 patterns exist - Traditional then born global; Follow the traditional pattern ↑- Traditional Pattern (67%)</td>
<td>Mixed paces - Fastest to slowest; Very early to late global players ↑- 1 to 5 years and 6 to 10 years (66%)</td>
<td>3 modes used - Direct exporting, agents then distributors; Simple or Low commitment mode; Strong evidence of direct and indirect exporting modes ↑- Direct Exporting (50%)</td>
<td>Equally covered the world regions; Physical distant &amp; close markets; No physic distance.</td>
<td>Diverse number of markets; Overall in 1 to 15 markets; Strong evidence in more than 20 markets ↑- 1-5 markets (66%)</td>
<td></td>
</tr>
<tr>
<td>FoodBev</td>
<td>All 3 patterns exist - Traditional, rapid then born global; Follow the traditional pattern ↑- Traditional Pattern (63%)</td>
<td>Mixed paces - Fast to slowest; Early to late global players ↑- 1 to 5 years (38%)</td>
<td>4 modes used - Agents, direct exporting, distributors then joint ventures; Low to high commitment mode; Strong evidence of direct and indirect exporting modes. ↑- Agents (38%)</td>
<td>Higher in the nearby regions only; Proximity markets; Social and culture effects; Evidence of physic distance</td>
<td>Moderate number of markets; Overall in 1 to 15 markets. ↑- 1-5 and 11-15 markets (76%)</td>
<td></td>
</tr>
<tr>
<td>RubPlas</td>
<td>2 patterns exist - Rapid then traditional Follow the rapid pattern ↑- Traditional Pattern (63%)</td>
<td>Two paces - Fastest to slower rate; Very early to late global Players ↑- 1 to 5 years (83%)</td>
<td>4 modes used - Direct exporting, agents &amp; distributors then subcontracting; Low to high commitment mode; Strong evidence of direct and indirect exporting modes. ↑- Direct Exporting (50%)</td>
<td>Very high in the nearby &amp; faraway regions; Physically distant markets; Niche products – Follow conscious customers; No evidence of physic distance.</td>
<td>High number of markets; Overall in 1 to 20 markets ↑- 1-10 markets (66%)</td>
<td></td>
</tr>
<tr>
<td>Source: Developed from the examination of Research Question 2 – Dimensions and Scopes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Key: (↑ indicates the highest level of the dimension)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4.7.3 Pattern of Internationalisation - Traditional, Rapid or Born Global?

This next section explores the patterns mentioned in the previous section as pathways to internationalisation. The patterns for each firm are presented in Table 4.20 to support this discussion.

Table 4.20: Patterns of Internationalisation Pathway in Various Industries

<table>
<thead>
<tr>
<th>Industry</th>
<th>Traditional Firms</th>
<th>Rapid Firms</th>
<th>Born Global Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electrical (n=8)</td>
<td>EE2 &amp; 3</td>
<td>EE1, 5, 6, 7 &amp; 8</td>
<td>EE4</td>
</tr>
<tr>
<td>AgroMan (n=6)</td>
<td>AG1, 3, 4 &amp; 6</td>
<td>_</td>
<td>AG2 &amp; 5</td>
</tr>
<tr>
<td>FoodBev (n=8)</td>
<td>FB1, 4, 5, 7 &amp; 8</td>
<td>FB3 &amp; 6</td>
<td>FB2</td>
</tr>
<tr>
<td>RubPlas (n=6)</td>
<td>RP2 &amp; 5</td>
<td>RP1, 3, 4 &amp; 6</td>
<td>_</td>
</tr>
<tr>
<td>TransMach (n=8)</td>
<td>TM2, 3, 6, 7 &amp; 8</td>
<td>TM1 &amp; 4</td>
<td>TM5</td>
</tr>
<tr>
<td>BioHerb (n=9)</td>
<td>BH5, 6, 8 &amp; 9</td>
<td>BH1, 2, 4 &amp; 7</td>
<td>BH3</td>
</tr>
<tr>
<td>WoodFurn (n=9)</td>
<td>WF2, 3, 5, 6 &amp; 8</td>
<td>WF4 &amp; 9</td>
<td>WF1 &amp; 7</td>
</tr>
<tr>
<td>Total (N=54)</td>
<td>27 Firms (50%)</td>
<td>19 Firms (35%)</td>
<td>8 Firms (15%)</td>
</tr>
</tbody>
</table>

The following sections discuss the traditional, rapid and born global patterns accordingly. In addition, characteristics related to process, mode of entry, markets and triggering factors in each pattern are included.

4.7.3.1 The Traditional Pattern

The traditional pattern was the most obvious pattern for 50% of the participating SMEs, as shown in Figure 4.10. Across all seven industries, the traditional pattern is strong in the FoodBev, TransMach and WoodFurn (18.5% each) less so in the AgroMan and BioHerb (14.8% each), and insubstantial in the Electrical and RubPlas Industries (7.4%).
Gradual Process

The traditional pattern exhibits a step-by-step, gradual development in stages to internationalisation. This gradual process may be undertaken by the company or with the assistance of government agencies and others, as is demonstrated in the following quote:

“When we started the business, we did not export straight. We started as a trading company. We bought products from overseas, and then we did the packing, and slowly marketed them in Malaysia. After that we bring in machines, then we do the assembly, and after that we sell our products overseas” [RP2].

NB: The underlined phrases indicate the stages process.

This firm exhibited six stages in its move to internationalisation: 1) Trader, 2) Selling locally, 3) Purchase of own equipment, 4) Packing products, 5) Self-assembly of products and 6) Selling to overseas markets.

Some respondents claimed gradual internationalisation might not have been realised without the involvement of government bodies. For instance, 16 of 25 particularly
small family businesses in the AgroMan, FoodBev, BioHerb and WoodFurn industries incrementally venture out by following government trade missions. It was commonly agreed that MATRADE facilitated the process of internationalisation; for example, “…MATRADE encourages business people to export the products” [WF6]. The Bumiputra (Indigenous people) SMEs also followed programmes pursued by the MARA (Majlis Amanah Rakyat - The Council of Trust for Indigenous People). One respondent said, “…We go through MARA and MATRADE. MARA supports us financially and MATRADE brings us along during the international exhibition” [FB4]. As another example:

“We started with a government contract in 1989, under the ‘Umbrella’ program with the Ministry of Entrepreneurship. Five years ago (2001) we began establishing on our own introducing our company into local and international markets. We followed the government business trips. From there we gained our international buyers” [WF6].

Therefore, different stages of internationalisation and support from the government bodies were observed. The stages were: 1) Under a Ministry programme; 2) Having a secure government contract; 3) Self-establishment; 4) Introduction to local and international markets; 5) Participating in government trade missions; and 6) Selling products overseas.

Another gradual process involved extensive research and development (R&D) along with researchers, professionals and government and non-government institutions. Thus, necessary steps to substantiate the international expansion process were taken:

“We researched on X to see what we can develop from it. At first we registered with the Food & Beverages industry, next we joined in hand with MPOB (Malaysian Palm Oil Board). Then we made research on X with public universities. We were invited to join agriculture exhibitions by the
Ministry of Agriculture Malaysia. Part of our international trading also has been promoted by MATRADE and FAMA. Recently, we’ve also been invited by a few countries, South Africa, Senegal and Sudan to develop products X over there” [AG6].

The above illustration shows the involvement of multiple agencies in internationalisation and the need for a thorough preparedness for internationalisation. Steps include: 1) Self research and development (R&D); 2) Formal registration; 3) Research collaborations with government bodies or tertiary institutions; 4) Government promotional programmes; 5) Semi-government international exhibitions; 6) International market acceptance; and 7) Foreign countries production.

**Mode of Entry**

This study found that firms following the traditional pattern were associated with conventional, simple and low commitment foreign entry modes. These included direct exporting, agents and distributors. This was particularly obvious in the WoodFurn Industry where five firms were applying a direct exporting approach to internationalisation. Family businesses in this industry followed government trade missions to take advantage of the yearly events of international furniture fairs and exhibitions as the main avenue to obtain direct buyers. One craft firm said:

“We use direct exporting. We do not use any agents. We sell direct to buyers, through our participation in exhibitions, particularly the international furniture fairs which we attend every year. This approach is very good in getting buyers.” [WF2]

Apart from direct exporting, local and overseas agents or distributors were appointed to arrange international activities. Cross border business involves other countries’ policies and rules, and this was an area where the firm sought assistance, as
mentioned, “We have to deal with immigration and procedures to prepare the necessary documentation” [BH6]. Misinterpretation can cause risks to the firms. Thus, most reported the easiest and safest approach for cross border business was to depend on traders, as the following quotes illustrate:

“That’s why we prefer to use traders rather than going directly. Traders will be responsible for everything. We just manufacture, send the products and receive the payment”! [RP5]

“We use a third party. We sell our products to an agent in Johore, then this agent distributes to the hypermarket in Singapore. We have a very good relationship with the trader because they facilitate the process of selling our products to other countries”. [FB7]

It was apparent that having a good relationship with the intermediary is necessary and this was frequently mentioned in the interviews. Therefore, the quality of ‘traders’ and ‘good relationships’ are important. In selecting this mode, acquiring reliable, honest and accountable agents or distributors is critical for successful foreign operation. For example, RP5 said, “We take care of the relationship with the traders”, and “We are very transparent with our distributors. They came to visit our factory” [FB5]; whereas RP6 said, “You have to find trustworthy agents or middle person” Whereas RP6 stressed, “I have strong bond of trust with my trader. This trust is developed from our commitment, our interaction and the sharing of experience”.

**Markets**

The findings support the traditional pattern of focusing on domestic expansion first and expanding slowly to psychically close markets. Of the 27 traditional firms, 8 firms (29.6%) gradually expanded into nearby markets after they became well-
established locally. For example, WF5 said, “We first built up our strength here first before we decided to go to foreign markets”. As another example:

“I started as a supplier of Malay and Nyonya traditional cakes to restaurants and hotels in Kuala Lumpur and Klang Valley areas in 1984. Then, we penetrated the majority in the hypermarkets (in Malaysia). After that, it was time to expand overseas” [FB4].

The reasons for selecting proximal markets for gradual internationalisation were the similarities of the export market to local market or the ability to control growth, for example:

“I choose Brunei because of the cultural similarities. They are like us--the Malaysian, thus, we believed that our products would be well accepted in Brunei” [WF5].

“We moved into Vietnam and Singapore because they are Asian countries. And we also export our products to Myanmar, Thailand, and Indonesia” [TM7].

“My products have reached Singapore, Brunei, Thailand, Indonesia, the Middle East and also Vietnam. My international policy is simple, I will only enter the markets that I am familiar with. That gives me a good sense of control in the business dealings” [FB8].

Nonetheless, even though some firms exhibited aspects of the traditional internationalisation patterns, they chose to send their products to farther markets, but usually only to a few countries. These firms preferred physically distant markets because of the customers’ buying power, huge demand, and customers’ preference to try new products, as demonstrated below:

“For my business, I have to find countries in which the customers can afford to pay for the products. That is why we chose to go into the Middle East. In Vietnam, we know that people cannot afford to buy our products, so we cannot do business there” [EE2].
“We are selling to China, mainly because there is a huge demand from customers there” [BH6].

“We moved to Australia because the penetration of natural-based product there is very high and people are always willing to buy something new. We noticed this demand trend in an exhibition, where people were just really excited to buy our products” [BH5].

“We chose England because of its good mix of ethnic groups. Apart from the white man, there is also a good number of Asian populations. Muslim population there is quite high also. Due to our ‘halal’ products, helps the promotion amongst the Muslims community and halal food is quite scarce at that time in England” [FB5].

Consequently, even firms following a traditional pattern may deviate in their expansion pattern. In today’s business, geography is no longer a barrier. The key issue as stated by EE2, “You have to know your market”.

Triggering Factors for Gradual Pattern

The triggering factors for taking a slower path to internationalisation (more than 5 years) were management change, firm readiness and timing. Some long-established firms in the study indicated that management could not persuade the founder to venture out, even though the firm was well established and capable to do so. International expansion only occurred after management was taken over by a younger generation, as is demonstrated in the following quote:

“This company started operating in 1951 (before Malaysia gained its independence) as a cottage industry. The founder had not given much thought to exporting. In fact I think he didn’t plan to go at all. I know this because we are related. When he was no longer with us, we started exporting in 2000” [FB7].
Whereas EE2 said:

“We started the business 30 years ago. At that time, the management was afraid to go international because of language barrier. They don’t know how to speak English. All those old managers were scared. But, when I joined this company 8 years ago, we started to venture into overseas’ markets” [EE2].

Availability of resources was also a factor for displaying the traditional pattern. Lack of tangible and intangible resources, such as finances, personnel, facilities, raw materials and others, were reasons for not being able to internationalise earlier. Overcoming such inadequacies helped ready the firm to handle international activities, as shown in the following quotes:

“When my son got back from studying abroad in 2004, we set up a new plan to market our products overseas. All along we use the local hypermarkets! I think we need to go out directly. My son has a degree in Business, so he promoted the products to overseas markets” [FB4].

In relation to raw material, AG6 said:

"We went all out with the farmers for raw materials. We educate them on how to produce good plants. So we get our supply, and that’s the stepping point to venture out” [AG6].

“We did not start straightaway into international market as the investment is very high! We are talking about big volume. But, now ‘bolehla’*, because we have some money” [RP2].

(*‘bolehla’ is a common expression meaning ‘we can’ and is used widely in Malaysia)

Respondents believed that timing was vital, as is shown by the following quotes:

“We wanted to stabilise the company first because this is our company, our bread and butter. We have to be ready before penetrating into other markets” [WF3].
“Of course, we want to grow. But within our own pace and our own capacity. If we force ourselves to expand, we don’t have the stamina to sustain - and we will collapse!” [EE2].

The findings suggest that late-global-player SMEs are restricted by the organisational decision and firm capacity. It is not a ‘one man decision’, but involves the whole firm. Thus, the timing of internationalisation must be calculated and timely.

4.7.3.2 The Rapid Pattern

In all 19 participating SMEs (35%) followed the rapid pattern, as shown in Table 4.19. Figure 4.11 illustrates the rapid pattern in various industries. Six industries, except the AgroMan Industry demonstrated this pattern. The rapid pattern was most obvious in the Electrical Industry (26.3%), then the RubPlas, and BioHerb Industries (21.5% each) and less evident in the FoodBev, TransMach and WoodFurn Industries (10.5% each). The process, mode of entry, markets and triggering factors of the rapid pattern are discussed next.

**Figure 4.11: Rapid Pattern According to Industries**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electrical</td>
<td>26.3%</td>
</tr>
<tr>
<td>AgroMan</td>
<td>10.5%</td>
</tr>
<tr>
<td>FoodBev</td>
<td>21.1%</td>
</tr>
<tr>
<td>RubPlas</td>
<td>10.5%</td>
</tr>
<tr>
<td>TransMach</td>
<td>21.1%</td>
</tr>
<tr>
<td>BioHerb</td>
<td>10.5%</td>
</tr>
<tr>
<td>WoodFurn</td>
<td>10.5%</td>
</tr>
</tbody>
</table>
**Rapid Process**

The rapid pattern designates firms internationalising between 1 to 5 years of establishment. These firms established domestically first then acted aggressively to internationalise. Characteristics that allowed rapid expansion included product uniqueness, value-adding, organisational change, sales turnover, linkages and networks. Exceptional products accelerated the international penetrations of the Electrical, RubPlas and WoodFurn Industries, as this quote shows:

> “When I first started the firm in 2002, I was concentrating on bringing awareness to the local market. I believe that if the local market is not strong, the foundation is not there. It’s like a pillar. Then you can bring it off to the foreign markets. It was last year in 2005 when somebody told me that, “you have a niche product, why don’t you export?” So, I started exporting” [RP4].

Having a niche product allowed this firm to penetrate rapidly into several nearby countries, (e.g. Singapore, Sri Lanka, Vietnam, Maldives and Indonesia) and to the distant markets of the United States and Germany. Although product uniqueness can accelerate internationalisation, in certain circumstances, it can also hold back the process. One government-linked company found that product uniqueness was a barrier to exportation. Products had to be approved by the local provider before they could be sold overseas:

> “This technology is unique and very few manufacturers in the world venture into this product. The products have to be approved by the TNB. That’s why it took such a long time for us to internationalise. That company has to acknowledge and utilise the products first. So to penetrate into the international markets it took us 3 years” [EE5].

(*TNB stands for the Tenaga National Berhad, translated as the National Power Ltd. The TNB used to be the government-owned company and has been the sole power provider in Malaysia. It was privatised in the early 1990s)*
Another motivator for rapidly internationalising firms is *organisational change*. This could be due to buying a company or taking over management or manufacturing facility. Change of organisational management occurred in three firms in different industries (the RubPlas, BioHerb and FoodBev). Ironically, the company buy out and changes of management were caused by the financial constraints of the middle to late 1990s. These quotations describe their experiences:

*Buyout Company:*

“Roughly this company started in 1997, the time of Asian financial and economic crisis. The owner of the X company was my supplier. Somehow the company has financial difficulties, so together with my friend, we took over the corporation, the company, staff and everything. At first we supply to the government, after that we started exporting all over the world” [RP3].

*Takeover Management:*

“...The previous entrepreneur, Mr X got the project. He developed the plant, put up some facilities and technology, and he managed the work. After 2 years, Mr X had some financial constraint. In 1995, he gave up the project. Then, the Malaysian Technology Development Corporation (MTDC) took over. That was how I came” [BH1].

*Production Facility:*

“The firm was established in 1997, but we started manufacturing in Pakistan earlier than that. Then, we started our own production in China, but now we have move to India. All products are brought back to Malaysia for packaging. The company is planning to manufacture the products in Malaysia soon. At the moment, most of the production is done in Pakistan because of cheap labour and low production cost” [FB3].

Other characteristic were the *sales turnover* and *percentage sales* between domestic and foreign markets. The rapid firms had larger percentages of foreign sales, when compared to firms that internationalised incrementally. These firms captured about 30 to 70 percent of foreign sales. (The sales turnover information given was not too
specific as the executives were reluctant to unveil their yearly sales turnover). Several respondents in the rapid gave these anecdotal evidences, as seen in the following extracts:

“…At least, we generate 50 percent from our overseas sales” [WF9].

“…I think the sales turnover is up a bit, about 2 million per month, but still below our expectation, actually, we believe we could do more. Our foreign sales are currently around 30% to 40%” [FB6].

“… Now the company ratio for export and local is 50 – 50 percent” [BH1].

“…In this five years plan, the goal being put by the MD is export. Starting from 10 percent, and then we plan to grow to 20% to 40% of export”[TM1].

“…We have about 25% to 35% from foreign sales, but most sales come from locals. Our total sales turnover for this year is about RM7 million” [EE6].

“…I stopped supplying much to local markets. Last time 70% local, 30% export, now I reverse, 70% export, and 30% local” [RP3].

The evidence for many was that rapid internationalisation was a result of government industrialisation programmes that were introduced from 1980s onward as part of the ‘Look East’ policy. These also lead to MNCs mass-supplier production linkages and small enterprises entrepreneurship vendor schemes. Various government-based programmes, such as the Entrepreneurship programme, Bumiputera Entrepreneurships scheme, Women Entrepreneurships, government linked and industrial linkages programmes, and government privatisation (as underlined in the quotations below) are schemes intended to assist SMEs to venture into overseas’ markets. These were considered as successful for promoting Malaysian manufactured goods abroad. Examples of rapid internationalisation, as part of the government-assisted programmes, appear in the following quotations:
“I was actually one of the products of the ‘Overseas Entrepreneurship Training Scheme’, which was introduced in 1985. Under that scheme, selected entrepreneurs were sent to Canada and Japan for extensive training courses. In 1992, I was in the vendor program under the Industrial Linkages Programme, which was another government industrial-based policy” [EE5].

“I was one of the committees of National Association for Women Entrepreneur (NAWEM), which is linked to SMIDEC. Through SMIDEC, my products were taken to other countries” [RP4].

“This company was selected to represent Malaysia, in the OIC trade forum. From there, the Ministry of Entrepreneurship strongly suggested us to build up this ‘Bumiputera Hub’ to reinforce the Bumiputera’s herbal products abroad. That’s how we first entered the overseas market” [BH2].

“This company was a government privatisation project. The government wanted to privatise the X project, so it was given to an entrepreneur. The entrepreneur has 60% share, the foreign Australian partner, which brought in the technology, has 30% and the government has 10% share. This Australian partner brought our products first to Australia, and then to other countries” [BH1].

Network relationships also play an extensive role in rapid internationalisation. All firms mentioned these were vital; however, the extent of networks among firms differed and different firms reported different experiences. Respondent EE8 suggested networks must be initiated at all levels and with all people, “I started communicating at international level with many people, whoever in the global range” [EE8]. Strategic networks involving foreign partners and family associates enabled rapid internationalisation. One CEO suggested, “If you are tapping the Japanese market, you have to associate with the Japanese business people” [TM1]. Another CEO explained, “Our Australian partner had a business in China, so he introduced us there. From there, we extended to Hong Kong” [BH1]. Yet another CEO said, “Our family contacts which is quite large helped us to do business overseas” [WF9].
Another avenue for speeding the process is through global networking. This was the case for a high-tech company that penetrated many markets at once due to the founder and key personnel’s international networking relationships. These relations enabled the formation of the firm international subsidiaries:

“...Because of my high tech products, I need international networking. We have subsidiaries in Malaysia, Mumbai (India), UK and Hungary. These are the channels for me to penetrate into other markets” [EE5].

The majority of the respondents reported that maintaining good and long-lasting relationships was a key to rapid internationalisation of the firm. This was evident even in one situation of a split partnership. It would normally be expected that a broken partnership weakens the relationship, but in this case, the split did not alter the relationship with two foreign partners:

“... In 1997, 1998 we have this economic turmoil; the impact on us was big. Our foreign partners decided to pull out. They were afraid of losses, but then, the relationship with them is still very close. I still seek advice from the ex-technical director. He privately gave me coaching and visited us. If you want to tackle exports, you have to have close relationships. They have invested a lot, so, they still think that we are part of the group. Even though they don’t have shares, we still buy materials from them. So on and off I visit them, call, we write letters and e-mails. When they come here, they drop by to see me. The relationship remains” [TM1].

Overall, it is clear that product uniqueness, value-adding, organisational change, sales turnover, linkages and strategic networks contribute to the rapid pattern internationalisation process.

**Mode of Entry**

Of the 19 rapid firms, 13 (68%) ventured out using high commitment modes such as subcontracting, joint ventures and the remaining firms internationalised directly or
through agents (distributorship). Subcontracting or the use of a vendor mode was mainly introduced to support the Malaysian automobile industry and later supply goods for manufacturing MNCs. For instance, one supplier extended overseas operation by *subcontracting* the other international car companies:

"Previously we supply only for Proton, a government-owned automobile company, but now we supply to other companies. We subcontracted for Toyota, Perodua*, Honda, Isuzu, Nissan, Hyundai, Kia Motors, and Modenas*. We also supply to Volvo, and indirectly Volvo exports the parts to Bangkok and Sweden, and other companies under Swedish Motors" [TM4].

(*Perodua is the other government-owned automobile company. Modenas makes motorcycles)

Another subcontracting approach involves three electrical companies (EE1, EE7 & EE 8) by becoming subcontractor for electrical-based manufacturing MNCs.

*Joint ventures* provided easier entry to foreign markets as well as local expansion, as these quotations illustrate:

"This company is a joint-venture company between Malaysia and India. It is 70% local and 30% foreign. The Indian company is actually an International company based in the UK" [EE5].

"Our products have been manufactured in Pakistan because we have a joint venture business there" [FB3].

These examples demonstrated the additional benefits of joining with partners. For EE5 having developed “global” high-tech products facilitated entering the overseas markets; while in the case of FB3, the joint venture enabled the firm to acquire significant raw materials in the form of ‘halal’ animal bone, available at low costs in Pakistan.
The rapid expansion firms used a mix of direct and indirect methods, depending on the circumstances, as is demonstrated by the combination of utilising agents and distributors:

“We expand overseas either direct to the buyers overseas or indirectly. Indirectly – some of the local buyers are the international companies that set up regional offices in Malaysia. So through them, as our distributors, we send our products to Singapore, Philippines, Brunei and Australia” [WF9].

Apart from applying high commitment entry modes, such as subcontracting and joint ventures, the rapid entry firms in this study also utilised low commitment modes of foreign entry, demonstrating a myriad of foreign entry modes.

**Markets**

Rapid internationalising firms penetrated into several markets in near and farther countries at once or simultaneously almost at the same time. Of the 19 rapid firms, 8 (42%) from the Electrical, RubPlas, TransMach and WoodFurn Industries ventured out simultaneously to several physically distant regions. As this quote illustrates:

“I found out that Europe, such as in the Netherlands, Germany, Switzerland, and France, also South Africa and Australia have a demand for latex foam mattresses. So, we decided to go to all these markets at about the same time” [RP3].

In other instances, countries were chosen for specific reasons. The FoodBev and BioHerb Industries described their rationales as follows:

“Mainly my focus for export markets is Arab countries. Because from the impression that I gathered from the OIC trade forum, the Arab countries need help in plantations since, there are no other products like this available in their countries, we’d be the pioneer” [BH2].
“Firstly, we went to Indonesia because of the Islamic country status, and they are also our neighbour. We have so many similarities, and there are many Muslims in Indonesia. So we help the Muslims in Indonesia to get ‘halal’ gelatine! Same goes for Thailand - but we do have a company in Thailand. Our next foreign market is Turkey. I met with the Turkish partner in an exhibition in Jeddah, Saudi Arabia. Now our markets have also included Singapore, Brunei and China. We also export to India, because our capsule factory now has shifted to India” [FB3].

Having a similar environment allows the SMEs to penetrate rapidly into certain countries. The Gulf countries were selected by BH2 because its agricultural products match demand. This is also applicable to the food products that enabled FB3 to expand into many markets.

**Triggering Factors for Rapid Pattern**

The findings observed several triggering factors for the rapid entry pattern. These include critical incidents, regional events, reacting to societal perceptions and global community concern. Examples of local critical incidents were a disease epidemic affecting pigs and economic turmoil happening at almost the same time. For example, BH1 stated:

“…When the ‘Nipah Case’* occurred in 1998, our sales started to go down because our vaccines are for chicken and pigs. So the company was in a bad shape! We could not rely on this local market. If the market is affected then we are also kaput. That triggered this firm to venture overseas” [BH1]. *The Nipah Case is associated with the place where a pig disease spread and killed countless pigs and lead to some human deaths*
The second example was referred to by WF9:

“...I was a bank manager before. In late 1990s, Malaysia had faced a severe economic turmoil where many banks were instructed to merge. So I realised that I would have a ‘frozen career’ in the banking industry. My father offered me a segment in his business, which I took up. During my work at the bank I managed a lot of cases of firms venturing into international markets, so I’ve gathered a good foundation to internationalise my business” [WF9].

Specific regional events can also trigger rapid internationalisation. One Electrical SME described its rapid process as follows:

“We don’t intentionally going international, but since we were the technical supplier to the regional game-the annual regional SEA Game, we went to different countries every year. We started in Kuala Lumpur, then Philippines, then other SEA countries. That’s how we started doing business overseas” [EE1].

Societal perceptions about the ability to do business triggered two firms to expand. One CEO claimed that:

“I want to prove to others that as a Malay and Muslim, I am able to compete globally. Even though it is only a small percentage, but we are making the effort to compete with others” [RP1].

Whereas another said:

“I want to prove to the world that by following Islamic way of life, we could still succeed! We also want to help the Malay, and give job opportunities to others” [BH8].

Perception about ethnic or religious groups challenged some SME owners’ integrity and they wanted to defy these unjustifiable perceptions. In other cases, preference for overseas products triggered rapid internationalisation. Five firms (EE5, EE8, RP4, BT4, BH7) started to export because the locals were reluctant to accept their
products - despite that they are quality products and cheaper than imports. This quote demonstrates:

“I’m not happy with the local acceptance! For example, if this product [he pointed at a product on the table] is made in the USA and we sell it here, people will buy, even though it is so expensive! But if it is made in Malaysia, manufactured by a local company, they will say...Eleh! [Expression of disbelief]. They don’t even give it a glance! That’s why we have to go international” [BH7].

One company producing niche medical products sought practitioners’ awareness before international expansion was undertaken. To gain public approval “We met up with doctors and pharmacists, and we talked about our products with them. So that we could bring awareness and get assurance from the doctors” [RP4].

The irony is that some perceived government institutions as no different from others concerning the acceptance of local brand products. One GLC firm stated the lack of confidence towards the Malaysian brands was had resulted in a deliberate business strategy for getting his products purchased by the government authority.

“…My product was the lowest cost at RM1.8 million, but all the ‘Mat Salleh’* companies sold similar products for RM4 million and above. But the Malaysian authorities still didn’t want to buy my product, their eyes were on the ‘Mat Salleh’s’ products. So I argued, but then the government delayed the process of giving tender. So I make use of one ‘Mat Salleh’ from Singapore. I told him, “Everything will be under your name, using my company”. That time I went for RM3.6 million and I got the contract. See how unwise they are. From 1.8 to 3.6 million. I just put ‘that Mat Salleh’ on a bus and he went fishing everyday [laughs]” [EE5].

(*Mat Salleh’ symbolically means the ‘white people’ and refers to westerners)
Global community concern was a concern for two industries, the FoodBev and BioHerb. The practice of ‘halal’ products affecting Moslem communities at large has triggered rapid internationalisation as the following quotes illustrate:

“Why we decide to go international because many Islamic countries are interested in the ‘Halal’ products. We see the markets are big out there. The Indians do not take meat, so anything that has ‘Halal’ sign is a good market” [BH4].

“…Our vision is we want to provide awareness of the ‘Halal’ gelatine as alternative gelatine all over the world” [FB3].

These findings demonstrate the breadth of triggering factors for rapid internationalisation. Next, the born global pattern is discussed.

4.7.3.3 The Born Global Pattern

The results presented earlier in Table 4.19 (p. 218) revealed that 8 firms (15%) of the SMEs followed the born global pattern. Fifty percent of these were from the AgroMan and WoodFurn Industries and others were from each of the FoodBev, Electrical, TransMach and BioHerb Industries, as shown in Figure 4.12.

Figure 4.12: Born Global Pattern According to Industries
**Born Global Process**

Seven of the born-global SMEs internationalised from inception and AG5 ventured out six months of establishment because of the commodity products procedures. The born global patterns in this study demonstrated they had a clear corporate vision, visionary personnel, high percentage of foreign sales, niche product-industry, professionalism, and strong extended network relationships. Each emphasised the corporate vision of the firm as the key to this strategy. As stated by two CEOs: “We started immediately as our focus has always been overseas” [AG2], and “We are born global because our products are developed for overseas markets. That enforces a strong will to go out” [TM5].

One CEO stated, “How do you make things move? You are not making yourself move if you do things in your own backyard” [AG5], implying the importance of a prime mover(s) and the need to move into new markets. The respondents indicated that visionary people and network relationships were needed to proactively internationalise so rapidly.

Highly entrepreneurial and visionary people who adapted easily to new cultures, societies and environments managed the born-global firms. They conducted research for the purpose of gaining and enhancing knowledge before penetrating into new markets. This suggests that these key personnel possessed global mindsets as well as being active knowledge-seekers and highly competent businesspersons. One CEO remarked, “The concept of going global and I go in tandem. To me, the world is my home” [TM5]. He demonstrated ‘entrepreneurial intentions’ and ‘global thinking’ throughout the interview claiming that:
“...We always felt that we are a global business. How on earth are we going to export [exporting is not an option, as the product is developed for global market]? It is easy to get on the plane anywhere, I can adapt anywhere in the world, but I need to feel comfortable. Our will is to go global. So, be global. Think global. Act global” [TM5].

This thinking channels firms to be “part of the global village” [TM5]. As another suggested that, “If you go global, you’ve automatically attained leadership” [EE4].

Internationalising via the born global pattern not only prepared the SMEs to gain the world recognition but also demonstrated leadership ability among Malaysian firms.

The second feature was that the born global firms relied on networking relationships, which substantially contributed to the instant process of internationalisation. However, the degree and means differ. For instance, one GLC-SME corporate executive admitted that he submitted to the networks and direct contacts with the government agencies and others, as the least-cost means to becoming a born global player:

“The best approach and of course the most economical approach, is to make use of the networks the government offers. The government agencies have regional managers based outside Malaysia and they are willing to help. I am interested in finding direct contacts. So what they do is help me to get the direct contacts” [AG5].

In an opposite scenario, one firm said that relying on government supporting agencies was less required for a firm with foreign partners. Since partners were based overseas, moving into many physically distance markets was uncomplicated. This quote illustrates:

“As this company involves 15 partnerships, we have partners in many parts of the world, in the Middle East, Asia and Africa. So with these connections and the co-CEOs in other countries, the products are distributed to other places” [AG2].
Network is most important for a product that needs professional recognition and authority approvals, such as “know-how” and medical products. In the case of the high-tech products that need “know-how” expertise, according to one CEO, “We teamed up with my former overseas MNCs because they needed our engineering expertise” [EE4]. Colleague-network relationships and task-professionalism enabled this firm to venture out into new markets. Another example was products that were manufactured on demand; in such cases, a two-way network relationship with overseas contacts was crucial, as illustrated by this quotes:

“We are always in constant touch with healthcare operators, the scientists or the relevant authorities of affected countries. Even if we don’t contact them, eventually, they will contact us for the products” [BT3].

In addition, the born global SMEs had their own rationale for pursuing instant internationalisation. For instance, one commented that being related to niche product-industry, the born global strategy was suitable to avoid intense local competition. This quote illustrates:

“I think even from day one, we were already looking for overseas. Because in terms of my industry, the whole market is quite small and there are about seven active players in Malaysia. So, you know, you have to fight all the time. Unless you drive yourself for export market, you won’t be able to go further” [EE4].

Producing specialised goods that were not in much demand for local usage resulted in immediate internationalisation. The CEO of a firm that produced bio-diagnosis medical products claimed, “We exported immediately, because there weren’t many cases in Malaysia. The local demand is very low” [BH3]. Thus, this firm commercialised its products to countries where an epidemic occurred and there was demand for their products.
Being able to achieve a high percentage of foreign sales also determines the pattern of entry. Four firms [AG2, WF1, WF7, and TM5] were totally committed to selling overseas. One of these claimed that although they used to cater to some local markets, they no longer do so, “It’s now 100% exports. We stopped supplying to local market in 2005” [WF7]. The remaining four born-globals exported different proportions of foreign sales; for instance, FB2 (40% exports), BH3 (50% exports), EE4 (70% exports) and AG5 (95% exports). Overall, the born-global SMEs foreign sales ranged from 40 to 100 percent of productivity, indicating a high commitment to exports.

Taken together the findings suggest that the firm’s strategic plan and vision, managerial entrepreneurship and a high level of networking all assist with speedy internationalisation.

**Mode of Entry and Markets**

The modes of entry taken by the eight born-global firms varied; from high commitment modes such as building up facilities, joint ventures, and joining international trade organisations to lower commitment modes, such as using a wholesaler, retailer, agents and or direct exporting. Some firms utilised more than one entry method, taking a more complex approach.

Two firms (25%) provided evidence of this more complex entry mode. For example, TM5 had production facilities around the world (China, Dubai, Brazil and Indonesia) through its foreign joint ventures and five subsidiaries in Malaysia. The CEO claimed the reason for these successful ventures was the quality and global product.
“We produce products for international usage” [TM5]. On the other hand, EE4 stated the firm had collaborated with international principals since inception due to its “know-how”. “We were invited by a world-renowned multinational company to co-invest and to jointly develop X project in North Africa” [EE4].

Four firms (50%) practiced the more common conventional modes, such as, using distributors, agents, wholesalers and or retailers. For instance, WF7 engaged with a wholesaler, retailer and agents; whereas, FB2, WF1 and BH3 utilised distributors and agents. Having niche-medical products, BH3 explained its foreign mode as ‘systematic internationalisation’ approach, meaning: “The Company does not really go for any markets, it chooses niche market”. As further illustrated:

“We export using distributors. In several cases, we also have used sole agents. Basically we have only one distributor or agent for each country. Through the healthcare organisations, we contact the countries affected by the diseases. For the last 10 years, we have been exporting to India, Pakistan, Indonesia, South Africa, Philippines and Vietnam” [BH3].

Two of the eight born global firms (50%) from the AgroMan Industry used direct exporting methods, but practiced different approaches. For example, the CEO of AG2 claimed that due to the company’s relatively diverse foreign-shareholders, “We don’t have any problems finding the markets to export our products” [AG2]. This was because the shareholders simultaneously act as overseas’ agents enabling the firm to distribute to more than 35 countries.

In contrast, the other born global in the AgroMan Industry was a locally owned enterprise and adopted different approaches to reach 36 countries all over the world. The CEO described using the following modes of foreign entry: 1) Direct to end
users; 2) Direct to Factories; 3) Choosing one particular country that deals with 5-6 other countries; 4) Sell to Hypermarkets; and 5) Sell to members of the international trade [AG5]. Consequently, the born global firms had various entry modes and did not see themselves as bound by geographical borders. As described by the TM5 CEO, “Our market is not bound by geographical boundaries” [TM5].

**Triggering Factor for Born Global Pattern**

All the eight global pattern firms (100%) mentioned that their global and international standard products triggered them to internationalise. (This point was also highlighted in the traditional and rapid pattern). One CEO claimed:

“There are two ways of looking at this global products issue. A product that is specifically developed for the global market or a product that you later decide to export” [TM5].

Respondents suggested that for a product to be internationally approved, the development of the product itself must reach the international standard. “Our products have received international recognition” [EE4]. Reaching this criterion consequently triggered their instant internationalisation.

Two global firms claimed that they had difficulties selling locally due to lack of awareness. One claimed, “Most of the local market doesn’t recognise our efforts of having these certifications. The locals go for price, they don’t go for quality” [FB2]. Another claimed that she had difficulties selling locally due to lack of awareness that her products were customised. Thus, international markets were targeted from inception. This CEO commented:
“Our X products are customised for overseas markets because local people would not accept it as widely as in Australia, America and Europe. The products are slightly expensive because of high quality and good packaging. We provide after-sale service. To go for long term business with overseas clients, first thing you have to do is always offer after-sale service” [WF1].

The lack in domestic demand triggered speedy internationalisation. Another respondent pursued a niche global market “because there was not much demand for our products within Malaysia” [BH3]. This was because the products were developed specially to counter specific diseases that usually spread in certain countries. In another example, one firm indicated it was easy to internationalise quickly as their ‘know-how’ was in high demand internationally. This meant they did not need to invest in searching for markets: “Having the know-how, we were sought after by foreign partners, and quickly became part of the global supply chain” [TM5].

Personal reason also triggered instant internationalisation. One CEO said, “It is not the money, but greater reason. Actually, it is ‘nawaitu’!” [EE4] (Nawaitu is Arabic word which means ‘personal intention’). This suggests the company was driven by a humanitarian cause, rather than just monetary returns. This firm accepts high-tech projects in several poor, politically unstable and less developed countries for the sake of doing good deeds, rather than being motivated solely by profit making. Giving back to society also triggered this firm’s high-paced pathway to internationalisation. The CEO said he could not be where he is today if not for society’s support of his education. He was also conscious of the vulnerable situation faced by some other bumiputera entrepreneurs:
“I was a government-sponsored undergraduate overseas scholar. The LLN* has invested in me. So I feel it is my time to give back to society through going into overseas markets to gain more sales. Then, I started to help other people to become global entrepreneurs” [EE4]. (*LLN is an abbreviation for ‘Lembaga Letrik Negara’. This was the name given to the national power board before the privatisation. At present it is known as the TNB)

4.7.4 Summary Findings of Internationalisation Process

This section discussed the internationalisation process. Figure 4.13 presents the factors affecting the internationalisation process and Table 4.2 provides a full summary of the pertinent characteristics that explain the internationalisation of the respondents. They illustrate the processes, modes of entry, markets and triggering factors across the industries. The results show that the internationalisation process of Malaysian SME firms has three important related dimensions: internationalisation preconditions, entry mode and market, and internationalisation process patterns.

Figure 4.13: Dimensions of the Internationalisation Process

<table>
<thead>
<tr>
<th>INTERNATIONALISATION PROCESS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>D1: Internationalisation Preconditions (Founder and firm capabilities)</strong></td>
</tr>
<tr>
<td>- Ability to identify niche market (Niche Products (Tech-Based or Products for Global Markets)</td>
</tr>
<tr>
<td>- Founder/Key Personnel Strategic Networking Abilities</td>
</tr>
<tr>
<td>- Abilities to meet Home and Host Country Procedures and Requirements, and to meet international Standards</td>
</tr>
<tr>
<td>- Key personnel possess Information and market knowledge</td>
</tr>
<tr>
<td>- Ability to gather and allocate resources</td>
</tr>
<tr>
<td><strong>D2: Entry Mode and Market Dimension</strong></td>
</tr>
<tr>
<td>- Extend &amp; Entry Mode o Slow to Fast Paces o Low to High Commitment Modes</td>
</tr>
<tr>
<td>- Scope: o Small to large number of markets o Geographically / Psychically Near and/or Faraway Markets</td>
</tr>
<tr>
<td><strong>D3: Internationalisation Process Patterns</strong></td>
</tr>
<tr>
<td>- Traditional Pattern</td>
</tr>
<tr>
<td>- Rapid Pattern</td>
</tr>
<tr>
<td>- Born Global Pattern</td>
</tr>
</tbody>
</table>

_Influential variables: Process and Processual Speed; Mode of entry, Market, Triggering Factors, Industry_

Sources: Developed from the examination of Research Question 2

NB: D1, D2 and D3 – Dimensions of Internationalisation Process
Table 4.21: Detailed Dimension of SME Internationalisation Process Patterns and its Influential Variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>Characteristics of the Patterns</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Traditional Pattern</td>
</tr>
<tr>
<td><strong>Process and Processual Speed</strong></td>
<td>Internationalise after 5 or more years</td>
</tr>
<tr>
<td></td>
<td>Internationalise in stages</td>
</tr>
<tr>
<td></td>
<td>Using these means:</td>
</tr>
<tr>
<td></td>
<td>o Solely own effort (6 stages);</td>
</tr>
<tr>
<td></td>
<td>o Link with principal government agencies (6 stages); and</td>
</tr>
<tr>
<td></td>
<td>o Mixed effort (8 stages)</td>
</tr>
<tr>
<td></td>
<td>Foreign Sales: Less than 30%</td>
</tr>
<tr>
<td><strong>Mode of Entry</strong></td>
<td>Conventional / Simple</td>
</tr>
<tr>
<td></td>
<td>Low commitment</td>
</tr>
<tr>
<td></td>
<td>Mixed Modes</td>
</tr>
<tr>
<td></td>
<td>Modes Taken: Direct exporting; Trading company; Agents; Distributors; Intermediaries – middle people</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| **Markets** | Domestic expansion first  
- Many physically close markets; Very few distant markets  
- Similarities: Asian Countries; Within control  
- Specific Markets: Buying power; Supply raw material; Product acceptance; Mixtures of Ethnicity; and Targeted customers | Physically close and distant markets at once or almost at the same time  
- Specific reasons for selecting certain markets: Demand on niche products; Climate similarity; Culture and social similarity; Religiosity Issue | Many physically distant markets at once or almost at the same time  
- Many physically close markets  
- Niche markets  
- Global markets |
| **Triggering Factors** | Management Change: Taken over by younger generations  
- Resources Availability: Personnel; Financial; Raw Materials; and Facility / Factory Site  
- Firm Timing: Stabilisation; and Capacity  
- Firm Readiness | Critical Incidents: Local Incidents; Asian Economic Crisis  
- Follow events  
- Reacting to: Perception; Local Acceptance; Policymakers’ Mindset  
- Global Community Concern | Proactive Search  
- Pursue global niche product; Niche knowledge  
- Reacting to: Perception; and Local Awareness  
- Personal Reasons: ‘Personal will’; Self-dignity; Freedom and Paying back to society |
| **Industry** | All seven industries in the manufacturing sector:  
- Very Obvious in Electrical Industry  
- Obvious in FoodBev, TransMach and WoodFurn Industries  
- Less obvious in AgroMan and BioHerb Industries;  
- Weak in Electrical and RubPlas Industries  
- Not demonstrated in AgroMan Industry | Six industries in the manufacturing sector:  
- Very Obvious in Electrical Industry  
- Obvious in RubPlas and BioHerb Industries  
- Less obvious in FoodBev, TransMach and WoodFurn Industries  
- Not demonstrated in AgroMan Industry | Six industries in the manufacturing sector:  
- Obvious in AgroMan and WoodFurn Industries  
- Less obvious in FoodBev, Electrical, TransMach; and BioHerb Industries  
- Not demonstrated in RubPlas Industry |

*Sources: Developed from the examination of Research Question 2*
4.8 Driving Forces Influencing the Internationalisation Process

This section addresses Research Question 3: “What driving forces influence the internationalisation process of Malaysian SMEs in various manufacturing industries?” This question has two objectives: 1) to investigate the motivating factors for internationalisation and 2) to reveal the barriers inhibiting the internationalisation process of Malaysian SMEs. As Morgan (1997) points out, understanding both motivating and inhibiting factors enhances the understanding of the internationalisation process.

Similar to the previous analysis, basic quantitative analyses will be presented and supported with relevant comments from the respondents. Patterns of similarities and differences across the seven industries are also discussed.

4.8.1 Motivating Factors for Internationalisation

Table 4.22 summarises the overall findings for the motivating factors for internationalisation. Domestic and global forces were identified, and four themes emerged from each force. Domestic forces motivated 47% of internationalisation, with the sub-themes being relevant for 33% to 69%. Global forces affected 54% and the sub-themes ranged from 28% to 74%. This shows that global forces had a slightly higher motivating impact than domestic forces.
### Table 4.22: Motivating Factors for the Internationalisation

<table>
<thead>
<tr>
<th>Themes</th>
<th>Sub Themes</th>
<th>Frequency (N=54)</th>
<th>Percentage (a)</th>
<th>Average % (b)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>DOMESTIC FORCES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local Market Condition</td>
<td>Stiff competition</td>
<td>37</td>
<td>68.5%</td>
<td>54.2%</td>
</tr>
<tr>
<td></td>
<td>Saturated market</td>
<td>35</td>
<td>64.8%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Small size</td>
<td>25</td>
<td>46.3%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Local awareness</td>
<td>20</td>
<td>37.0%</td>
<td></td>
</tr>
<tr>
<td>The Need For Expansion</td>
<td>Growth Potential</td>
<td>37</td>
<td>68.5%</td>
<td>53.7%</td>
</tr>
<tr>
<td></td>
<td>Profit Making</td>
<td>30</td>
<td>55.6%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Firm Capability</td>
<td>26</td>
<td>48.1%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Demand</td>
<td>23</td>
<td>42.6%</td>
<td></td>
</tr>
<tr>
<td>National Issue</td>
<td>Industrialisation</td>
<td>27</td>
<td>50.0%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Prove ‘Malaysia Can’</td>
<td>22</td>
<td>40.7%</td>
<td>45.4%</td>
</tr>
<tr>
<td>Government Arrangement</td>
<td>Government Arrangement</td>
<td>18</td>
<td>33.3%</td>
<td>33.3%</td>
</tr>
<tr>
<td><strong>GLOBAL FORCES</strong></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Global Market Condition</td>
<td>Market Size</td>
<td>40</td>
<td>74.1%</td>
<td>68.5%</td>
</tr>
<tr>
<td></td>
<td>Market Opportunity</td>
<td>43</td>
<td>79.6%</td>
<td></td>
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<tr>
<td></td>
<td>Market Awareness</td>
<td>28</td>
<td>51.9%</td>
<td></td>
</tr>
<tr>
<td>Globalisation</td>
<td>Globalisation Trend</td>
<td>39</td>
<td>72.2%</td>
<td>61.1%</td>
</tr>
<tr>
<td></td>
<td>Economic Integration</td>
<td>27</td>
<td>50.0%</td>
<td></td>
</tr>
<tr>
<td>‘To Follow’ Trend</td>
<td>‘Follow’ Clients</td>
<td>24</td>
<td>44.4%</td>
<td>43.5%</td>
</tr>
<tr>
<td></td>
<td>Encouragement &amp; Support</td>
<td>23</td>
<td>42.6%</td>
<td></td>
</tr>
<tr>
<td>Resource Seeking</td>
<td>Advanced Resources</td>
<td>30</td>
<td>55.6%</td>
<td>41.7%</td>
</tr>
<tr>
<td></td>
<td>Basic Resources</td>
<td>15</td>
<td>27.8%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Developed from the analysis

### 4.8.1.1 Domestic Forces

This section discusses the four themes and eleven sub-themes that informed the domestic forces. These included local market condition (54.2%), the need for expansion (53.7%), national issues (45.4%) and Government arrangement (33.3%). The pattern and ranking of industries is shown in Table 4.23. Domestic forces were strongest for the BioHerb, RubPlas, FoodBev Industries (see the ‘Industry Ranking’ row).
Table 4.23: Patterns of Domestic Forces According to Industries

<table>
<thead>
<tr>
<th>DOMESTIC FORCES THEMES</th>
<th>INDUSTRY (N=54)</th>
<th>SUB-THEMES</th>
<th>Electrical (n=8)</th>
<th>AgroMan (n=6)</th>
<th>FoodBev (n=8)</th>
<th>RubPlas (n=6)</th>
<th>TransMach (n=8)</th>
<th>BioHerb (n=9)</th>
<th>WoodFurn (n=9)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Market Condition</td>
<td></td>
<td>Stiff competitions</td>
<td>2     2     3   3   3   3   2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Market saturated</td>
<td>2     2     3   1   3   2   2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Small size</td>
<td>2     1     2   3   2   2   1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Local awareness</td>
<td>1     2     1   2   2   3   1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Need For Expansion</td>
<td></td>
<td>Growth Potential</td>
<td>2     3     3   2   2   3   3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Profit Making</td>
<td>2     2     2   3   2   3   1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Firm Capability</td>
<td>2     1     2   1   1   2   2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Demand</td>
<td>1     1     2   3   2   2   1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>National Issue</td>
<td></td>
<td>Prove “Malaysia Can ”</td>
<td>1     2     3   2   1   3   1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Industrialisation</td>
<td>2     1     2   1   3   1   2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government Arrangement</td>
<td></td>
<td>Government Arrangement</td>
<td>2     1     1   1   2   2   1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total weighting of domestic motives sub-themes ∑=33</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry Ranking</td>
<td></td>
<td></td>
<td>19     18     24   25   23   26   21</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

NOTE: n = number of participants in each industry

KEY: 3 - Strong Domestic Forces (Respondents’ Response Rate: 67% and above)
2 - Moderate Domestic Forces (Respondents’ Response Rate: 34% to 66%)
1 - Weak Domestic Forces (Respondents’ Response Rate: 33% and below)

**Local Market Condition**

Local market theme covered competition, market, size and local awareness. Four industries (the FoodBev, RubPlas, TransMach and BioHerb) demonstrated that stiff local competition motivated them to seek internationalisation. More than 67% of the respondents found the local market was very competitive, as many local and foreign players competed in a limited market. The FoodBev and TransMach Industries claimed that the Malaysian market was saturated and business growth had become stagnant. For example:

“The domestic market is very small and there are many competitors in Malaysia. We are also competing with other competitors in the food products and biotech. So, we need a bigger market. That’s why we have to go international” [BH7].
Another key executive stated:

“Malaysia is having a difficult time, the business line is getting slow, government spending has dropped, there are more players in the market, and the pie is smaller. So, you have to go outside” [EE2].

Another significant market issue was the level of appreciation of local products. One respondent said, “People are not ready to have a shift of thought or shift of mind. This usually takes 5 to 10 years, so we cannot wait. We’ve got to venture out” [RP4].

**The Need for Expansion**

The need to expand was identified by 54% of the respondents who disclosed that growth potential, profit making, firm capability and product demand were motivators to internationalise. In general, representatives of all industries (68.5%) agreed that the promise of growth potential motivated expansion. This was strongly the case for the AgroMan, FoodBev, BioHerb and Woodfurn Industries. For instance, the CEO of a food company observed, “I think we have big potential for the Halal-Hub” [FB5], whereas the respondent from WF3 said, “If we are able to go overseas, our company could grow” [WF3].

Except for the WoodFurn Industry, the other six industries believed that expanding abroad could secure a better future for the company and profits were another motive, to “…ensure long term greater business returns” [EE4]. Concern for what the company could gain above production expenses increased motive for internationalisation. “We need to counter the profit exchange. If we only go for local market, we could not get the profit” [BH1]. International demand was another
motivator, as a Rubber and Plastics respondent commented, “Demand for our products is there. It is good money” [RB3]. Firms that had the capacity to meet international demands realised they could gain better returns for the company.

**National Issues**

The national industrialisation policy motivated internationalisation for 50% of the participating SMEs particularly the TransMach (7 of 9 firms - 88%), Electrical (5 of 8 firms – 63%), and WoodFurn (5 of 9 firms – 56%) industries. These firms were involved with the industrial linkages programmes, global supply chains or government linked companies and other government SME development programmes. One example of a government linkages programme is a programme in which the government mediates the linking up of a group of small supplying parts firms to the government-owned car producer as explained by the following respondent:

> “Since we are part of the industrial linkages programme, later we provide technical support for big companies. So we were able to produce high quality-technical products for European market” [TM3].

Another motivating factor was the entrepreneurs/founders’ need to prove to the sceptics that Malaysian businesses can be successful. Forty-five percent of respondents indicated the ‘Malaysia Can’ slogan (translated from the National Slogan, ‘Malaysia Boleh’) was a motivator. The intention was to impress the world that a small and developing country like Malaysia had the ability to produce world-class products. This was the case for the FoodBev and BioHerb Industries and was stated by 6 of the 8 FoodBev firms (75%) and 6 of the 9 BioHerb firms (67%). In response to why the company internationalised, one respondent said:
“Of course ‘Kerana-mu Malaysia’ (translated as ‘For You, Malaysia’). Malaysian herbs are highly valued, and we could produce high quality products. Therefore, we want to introduce our traditional herb overseas. These herbs are actively planted by the farmers in the rural area under the government plantation development and our company is their sole buyer. So we don’t want these supplies to be wasted” [BH6].

To realise the ‘Malaysia Can’ slogan, many suggested that they trade on a Malaysia identity. One way of doing this was, “You need to trade on branding. Branding is necessary to save a small company like ours. We used a Malay term, which is also well-known in other countries” [BH5]. Another respondent said, “We use the most well-known ancient Malay warrior name as a brand for our product that we export to overseas” [AG3].

**Government Arrangement**

Government motivators centred on incentives, facilities and support. Although this only affected 18 of 54 respondents (33.3%), this finding is important. Three industries, the Electrical, BioHerb and TransMach agreed that the government supports was a moderate motivator. One CEO claimed “I was asked by the Prime Minister to thoroughly study the China market” [EE3], during the introductory stage of Malaysia’s industrialisation programme in the 1980s. Although not really a motivator, government supports “such as promotional grants that could expose our products overseas” [WF5] were particularly valued by the AgroMan, FoodBev, RubPlas and WoodFurn industries.

**4.8.1.2 Global Forces**

Global forces that motivated internationalisation included global market conditions (68.5%), globalisation (61.1%), to ‘follow’ trends (43.5%) and to seek resources
The diverse patterns of motivators across the seven industries are illustrated in Table 4.24. Global forces were strong motivators for the Electrical, TransMach, WoodFurn and FoodBev industries to internationalise. The similarities and differences among these motives are explained below.

Table 4.24: Patterns of Global Forces According to Industries

<table>
<thead>
<tr>
<th>GLOBAL FORCES THEMES</th>
<th>SUB-THEMES</th>
<th>INDUSTRY</th>
<th>Electrical (n=8)</th>
<th>AgroMan (n=6)</th>
<th>FoodBev (n=8)</th>
<th>RubPlas (n=6)</th>
<th>TransMach (n=8)</th>
<th>BioHerb (n=9)</th>
<th>WoodFurn (n=9)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Market Condition</td>
<td>Market Size</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>3</td>
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<tr>
<td></td>
<td>Market Opportunity</td>
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<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Market Awareness</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Globalisation</td>
<td>Globalisation Trend</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Economic Integration</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>To Follow Trend</td>
<td>‘Follow’ Clients</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Encouragement &amp; Supports</td>
<td>3</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Resource Seeking</td>
<td>Advanced Resources</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Basic Resources</td>
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<td>2</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Total weighting of global motives sub-themes ∑=27</td>
<td>24</td>
<td>15</td>
<td>20</td>
<td>19</td>
<td>22</td>
<td>17</td>
<td>21</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Industry Ranking 1 7 4 5 2 6 3

NOTE: n = number of participants in each industry

KEY: 3 - Strong Global Motive (Respondents’ Response Rate: 67% and above)
2 - Moderate Global Motive (Respondents’ Response Rate: 34% to 66%)
1 - Weak Global Motive (Respondents’ Response Rate: 33% and below)

Global market conditions included foreign market size, market opportunity and the overseas market awareness. Almost 80% (six industries) were motivated by the immense opportunities abroad. The respondents claimed there were a lot of opportunities abroad so, “we are looking for opportunities in the external market” [EE1]. Market opportunities operate in tandem with larger market sizes, as demonstrated by this respondents claim, “Outside markets are increasing compared to local” [WF7]. This affected mainly four industries, the Electrical, TransMach,
BioHerb and WoodFurn. Consequently, selling into markets with better awareness of the products pushed the participating SMEs further into global markets:

“Compared to Malaysia, the level of awareness of people in Australia toward health products is increasing, but in Malaysia it is still quite low. The Malaysians probably know about the existence of this product, but to take it and make it as regular supplement, is still very low” [BH7].

Globalisation is a phenomenon that has changed the structures of international trade. More than 61% of the respondents perceived globalisation forces, such as trends and economic integration motivated expansion as the trends influence global products, global customers and global technology. Globalisation has driven the internationalisation in the Electrical, RubPlas, TransMach and WoodFurn industries. One interviewee concluded, “Everybody is talking about globalisation! We cannot get stuck in Malaysia, we need to move on” [TM7]. Another CEO said, “We have to start entering people’s house, before others come to ours” [FB7].

The other important component of globalisation is economic integration, which is another means for internationalisation. Therefore, it becomes a necessary strategy for SMEs to go along with the Free Trade Zone arrangements. The benefits, such as tax deduction policies and minimum or zero fees for foreign entrance for member countries, for instance, enhanced opportunities for the SMEs to internationalise. “We choose countries in the Free Trade Zone Area or ones that are under AFTA, because when we import machines from overseas, we don’t have to pay tax” [TM7]. Consequently, the economic integration motivated 50% of the SMEs to penetrate other markets.
Following clients or customers and receiving encouragement and support from overseas partners and/or parent companies were other motivational factors for internationalisation. The ‘follow’ trends affected 43.5% of respondents and most affected the Electrical, RubPlas and TransMach industries. In this study the participating SMEs followed the trail of the government agencies trade missions (in particular SMIDEC, MITI and MATRADE), niche customers and countries, client products, overseas’ partners, and parent companies. As one respondent said, “We analyse our customers’ demand and preference trends” [TM3].

Seeking basic and advanced resources prompted internationalisation for about 42% of the participating SMEs. The search for basic resources, such as cheaper resources and low cost materials, prompted 28%; however, seeking for advanced resources was more vital particularly for high-tech SMEs in the Electrical and TransMach Industries. Almost 56% agreed that they sought advanced resources in technology, knowledge and know-how, overseas technicians (expertise), better quality and design and research and development. This suggests two purposes; to acquire knowledge of what needs to be done and to engage in modern, rather than traditional trade.

In summary, the findings revealed that the driving motivational forces were domestic forces, such as the local market conditions, need for expansion, as well as national and governmental issues and global forces, such as the global market conditions, globalisation, following trends and resource seeking. The next section discusses the inhibiting factors to internationalisation.
4.8.2 Inhibiting Factors to Internationalisation

Inhibiting factors to internationalisation included internal and external barriers as shown in Table 4.25. Internal barriers dealt with four themes and twelve sub-themes. Whereas five themes and eleven sub-themes emerged as external barriers. Subsequently, the results show that higher impediment rates are observed within national boundaries (from 35% to 78%), than externally (22% to 44%). For example, EE1 stated, “more barriers are contributed by the Malaysian government than the importing countries” indicating the SMEs can face more setbacks from the local environment, authorities and their policies than with the host countries’ policies and the international environment.

<table>
<thead>
<tr>
<th>Themes</th>
<th>Sub-Themes (Items)</th>
<th>Frequency (N=54)</th>
<th>Percentage (a)</th>
<th>Average % (b)</th>
</tr>
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<tbody>
<tr>
<td>Internal Barriers</td>
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<tr>
<td>Government Policy</td>
<td>Lack of Standardisation</td>
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<td>77.8%</td>
<td>55.1%</td>
</tr>
<tr>
<td></td>
<td>Lack of Transparency</td>
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<td>55.6%</td>
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<td></td>
<td>Incompetent Implementations</td>
<td>28</td>
<td>51.9%</td>
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</tr>
<tr>
<td></td>
<td>Mindsets of Policymakers</td>
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<td>35.2%</td>
<td></td>
</tr>
<tr>
<td>Regulations &amp; Procedures</td>
<td>Long Processing Time</td>
<td>40</td>
<td>74.1%</td>
<td>70.4%</td>
</tr>
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<td></td>
<td>Follow the book (Bureaucracy)</td>
<td>36</td>
<td>66.7%</td>
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</tr>
<tr>
<td>Firm Capability</td>
<td>Resources (Financial &amp; Non-Financial)</td>
<td>40</td>
<td>74.1%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Production Capability (Operations)</td>
<td>22</td>
<td>40.7%</td>
<td>50.0%</td>
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<td></td>
<td>Managerial</td>
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<tr>
<td>Political Interventions</td>
<td>Interference</td>
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<td>57.4%</td>
<td>49.4%</td>
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<td></td>
<td>Bureaucracy (Protocol)</td>
<td>27</td>
<td>50.0%</td>
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</tr>
<tr>
<td></td>
<td>Self Interest</td>
<td>22</td>
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<td>External Barriers</td>
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<td>Psychic Distance</td>
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<td>Cultural &amp; Social Differences</td>
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<td>27.8%</td>
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<tr>
<td>Host Country Policy</td>
<td>Policy and Procedures</td>
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<td>44.4%</td>
<td>38.0%</td>
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<td></td>
<td>Country Preference</td>
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<td>Market Knowledge</td>
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<td>44.4%</td>
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<td>Host Country Awareness</td>
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<td>22.2%</td>
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<td>Distribution Channel</td>
<td>Inappropriate Selection</td>
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<td>42.6%</td>
<td>32.7%</td>
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<td>Inadequate Services</td>
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<td>29.6%</td>
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<td></td>
<td>Payment Issue</td>
<td>14</td>
<td>25.9%</td>
<td></td>
</tr>
<tr>
<td>Perception</td>
<td>Towards Developing Countries</td>
<td>14</td>
<td>25.9%</td>
<td>25.9%</td>
</tr>
</tbody>
</table>
4.8.2.1 Internal Barriers

This section discusses the themes and sub-themes of internal barriers. Table 4.24 shows four themes contribute to internal barriers, including government policy (55.1%), regulations & procedures (70.4%), political interventions (49.4%) and firm capability (50%). These predicaments are interrelated, and include lack of standardisation of the government policy, long processing times for funds and facilities and lack of firm resources. The various patterns were ranked as demonstrated in Table 4.26. The strongest internal barriers were noted in the BioHerb, FoodBev and AgroMan Industries.

Table 4.26: Patterns of Internal Barriers According to Industries

<table>
<thead>
<tr>
<th>INTERNAL BARRIERS THEMES</th>
<th>SUB-THEMES</th>
<th>INDUSTRY</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Electrical (n=8)</td>
</tr>
<tr>
<td>Government Policy</td>
<td>Lack of Standardisation</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Lack of Transparency</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Incompetent Implementations</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Mindsets of Policymakers</td>
<td>2</td>
</tr>
<tr>
<td>Regulations &amp; Procedures</td>
<td>Long Processing Time</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Follow the book (bureaucracy)</td>
<td>1</td>
</tr>
<tr>
<td>Political Interventions</td>
<td>Bureaucracy (Protocol)</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Self Interest</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Interference</td>
<td>2</td>
</tr>
<tr>
<td>Firm Capability</td>
<td>Lack of Resources</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Managerial Lacking</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Production Capability (Operations)</td>
<td>1</td>
</tr>
</tbody>
</table>

Total weighting of internal barriers sub-themes $\sum=36$

<table>
<thead>
<tr>
<th>Industry Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
</tr>
<tr>
<td>3</td>
</tr>
<tr>
<td>2</td>
</tr>
<tr>
<td>4</td>
</tr>
<tr>
<td>6</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>4</td>
</tr>
</tbody>
</table>

NOTE: n = number of participants in each industry
KEY: 3 - Strong Internal Barriers (Respondents’ Response Rate: 67% and above)
2 - Moderate Internal Barriers (Respondents’ Response Rate: 34% to 66%)
1 - Weak Internal Barriers (Respondents’ Response Rate: 33% and below)
Lack of Government standardisation, transparency, incompetent implementation and the mindsets of policymakers were perceived as impediments to internationalisation. All organisations claimed that the execution of grants, facilities and support for the SMEs could have profound impacts. For example, the Electrical, AgroMan, FoodBev, TransMach, BioHerb and WoodFurn respondents all indicated distress regarding the facilities and support given to SMEs; 78% raised concerns over unclear policies on issues, such as the local content requirements and certificates of origin. This excerpt illustrates one respondent’s concern:

“...To deserve the certificate of origin, we have to convince our own government that our product is truly made in Malaysia. To claim that your product is made in Malaysia you are required to have 40% local content, but the Government forgets one thing. Majority of the hi-tech devices are not made in Malaysia, only in Japan or Taiwan. So what can we do? Do they know the cost? The imported raw materials? The human cost? The intellectual property? These are not their concern” [EE1].

The young industries, such as AgroMan, FoodBev and BioHerb Industries, claimed their industries had not been given adequate or accurate direction towards internationalisation, despite their growth potential. Corporate executives said, “There’s no coordination among the government bodies” [BH7] and “There is a lack of link between government-based R&D agencies and products commercialisation” [AG6]. Consequently, lack of coordination spurred misunderstandings among the policymakers or government agencies and the executors or customs. As this CEO explains, “There are no officials to look into entrepreneurs’ matters and problems. Some officers are not certain what certifications are required for our shipping documents” [FB2].
To some extent, the policies guided SMEs, but how the policies were implemented and the way situations were handled was disappointing. Clearly, the two main concerns were the lack of transparency (52%) and the perceived narrow mindsets of the policymakers (35%) and the contributing factors are summarised below:

**Lack of Transparency**
- The status of SMI loan or grants;
- Licensing given to producers - not straight forward;
- The use of a middle person to obtain approvals;
- Selected people to receive loans and supports;
- The bailout effect of the 1997-1998 economic turmoil;
- Controls on certain industries;
- Policy on economic integration.

**Perceived Narrow Mindsets of the Policymakers**
- Prefer overseas products than locals;
- Loose (lenient) policy on foreign producers;
- Less protection on local markets;
- Make business in Malaysia harder;
- Unclear objectives of the trade missions;
- No government involvement when problems occur;
- Lack of export readiness and knowledge;
- No exposure to the Malaysian products.

As a consequence, one respondent said, “We feel so frustrated with our own government. That’s why many business people cheat” [BH6]. On the other hand, another commented, “I don’t want to falsify the documents like some others, who used other people’s names just to get the loan” [WF4]. These comments provide support that the regulations and procedures established by policymakers can create setbacks for SME Internationalisation.

Regulations and procedures in getting assistance and support was an obstacle for more than 70% of the respondents. In particular, two issues were raised, the time taken and the strictness of the procedures (follow the book) to process applications for funds, grants and support. All industries were affected by this, but problems were more severe in the AgroMan, FoodBev, BioHerb and WoodFurn Industries. “It is difficult to apply for the loans and support, as we have to go through a long
Many stated that the approvals might take several months to one year. This was a real concern as, “Many things can happen within a year, by then we let go of opportunities” [BH6]. Ironically, some respondents even questioned the availability of the SMI fund from SMIDEC and MARA: One claimed, “The SMI bank told me that we can access the funds, but we didn’t get it” [RP1]. Another quotation further illustrates the situation:

“Every time I applied, they said, there was no more funds, and asked me to apply again next year. I argued with the officer and the answer that I received was no and the reason given was unclear” [FB4].

A number of other examples of regulations and procedures that caused difficulties for SMEs were cited. These included, the paperwork (e.g. filling in forms, proposals and the reference letter), long processing times (regardless of the applications being accepted or not) and differences in document interpretations (on certifications, labelling and packaging). Others referred to National Standards not complying with International Standards (e.g. quality and safety assurance) and irrelevant and inaccurate information (e.g. diverse information received from different institutions or the government bodies).

Because of these stringent regulations and procedures, some SMEs would rather deal with the commercial banks because, “Opportunity comes only once, if you don’t take it, that’s it!” [FB4]. As an example, the processing steps for gaining loans approval is illustrated in Figure 4.14.
Figure 4.14: Processing Steps for Loan/Grant (Based on the Interviews)

Sources: Developed for this thesis

Forty-nine percent revealed that political interventions in terms of self-interest and protocols put the SMEs in difficult situations. These issues affected all industries, but the AgroMan, FoodBev and Bioherb Industries were most affected. Interventions (usually executed by policymakers and government officers) occurred in regards to public tenders (projects), provision of loans, facilities and support. Political interference was also reported.
The Electrical industry, which has many companies involved with subcontracting and/or vendor approaches to enter foreign markets, was one of the industry groups to report political barriers. “The politicians have their own interest” [EE1], and this could happen in such a way that “before the projects were publicized or open for tender, they [certain politicians] grab first and give the projects to their own people” [EE3]. Companies that rely heavily on government supports and facilities can be severely disadvantaged, as one CEO commented, “In many cases, the politicians decide who gets the grants” [AG6]. According to these CEOs, “In order to approve our loan, they want something in return” [RP6], or in more subtle way, certain officers would “…ask for some commissions” [RP1].

These examples demonstrate that political interventions hamper international development. Yet, as other CEOs said, “I don’t have much choice” [RP1], but “To keep some politicians happy” [BH5]. These comments suggest the respondents felt they ‘had-no-option’ but to go along with the protocol and bureaucracy if they wanted to expand their companies abroad. Another CEO concluded, “…if you have some political connections, it is so much easier” [WF1].

As reported earlier, firm capability motivated internationalisation, whereas a lack of resources would inhibit the process. Fifty percent of the participating SMEs agreed that their firms had limitations in terms of resources, production capability (operations) and managerial experiences. Financial resources constrained more than 74% especially among the AgroMan, FoodBev, RubPlas and BioHerb Industries and the contributing factors included limited firm capital, excessive expenses for acquiring raw materials and production equipment, and complying with international
standard and even for hiring foreign workers. The core of these limitations was the strict regulations and procedures, and eligibility for the SMI funds, loans and supports. Consequently, this placed a substantial demand on the owners’ personal financial resources. One CEO informed that, “…we sold our house, our property and our land” [AG6], while another said, “I mortgaged my house and my property” [FB4]. While this is a poignant issue, it was deemed necessary so production and international sales could proceed.

Firm production capacity was another internal constraint for the SMEs and was largely determined by financial constraints. For instance one Malaysian furniture manufacturer said despite that overseas demands were huge, “At the moment, I don’t have enough capacity to produce large quantity, we have no money” [WF4]. Apart from this, when promoting international trade with other countries, the authorities overestimated SMEs production capacity, as explained below:

“When our ministers go outside for trade missions, they give big hopes to the traders, without realising our capabilities and problems. It is easy to say and promise, but when it comes to implementation, we don’t have the capabilities. The ministers can say anything, they can promise the moon and stars. That’s why I really disagree with the ministers, going overseas, saying things beyond our capabilities. They need to see below, to the producers, the small entrepreneurs like us” [BH6].

Consequently, the internal barriers to internationalisation e.g. the government policies, regulations & procedures, political interventions and firm capability are interrelated. The policies, regulations and procedures are influenced by the policymakers and executors views, which take insufficient account of a firm’s resource capabilities to advance international growth.
4.8.2.2 External Barriers

The external barriers to internationalisation included five themes; host country policies, the market environment, distribution channels, psychic distance and the SMEs presumed perception of the targeted markets (see Table 4.24). Eleven sub-themes emerged and as illustrated in Table 4.27, the patterns were less diverse when compared to the internal barriers and ranked as mainly moderate and weak. Sequentially, the BioHerb, AgroMan, RubPlas and FoodBev led the industry rankings followed by the WoodFurn, TransMach and Electrical Industries. The similarities and differences illustrating the patterns of the external barriers are explained below.

<table>
<thead>
<tr>
<th>THEME</th>
<th>SUB-THEMES (Items)</th>
<th>INDUSTRY</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Electrical (n=8)</td>
</tr>
<tr>
<td>Host Country Policy</td>
<td>Policy and Procedures</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Targeted Country Preference</td>
<td>1</td>
</tr>
<tr>
<td>Market Environment</td>
<td>Market Knowledge</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Competition</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Market Awareness</td>
<td>1</td>
</tr>
<tr>
<td>Distribution Channel</td>
<td>Inappropriate Selection</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Payment Issues</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Inadequate Services</td>
<td>2</td>
</tr>
<tr>
<td>Psychic Distance</td>
<td>Communications Gaps</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Cultural &amp; Social Differences</td>
<td>1</td>
</tr>
<tr>
<td>Perception</td>
<td>Presumed perception of target market toward Developing Countries</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total weighting of external barriers sub-themes</strong></td>
<td><strong>Σ=33</strong></td>
<td></td>
</tr>
<tr>
<td>Industry Ranking</td>
<td>7</td>
<td>2</td>
</tr>
</tbody>
</table>

NOTE: n = number of participants in each industry.
KEY: 3 - Strong External Barriers (Respondents’ Response Rate: 67% and above)
2 - Moderate External Barriers (Respondents’ Response Rate: 34% to 66%)
1 - Weak External Barriers (Respondents’ Response Rate: 33% and below)
**Host Country Policy**

According to 38% of the respondents, host country policies and procedures, as well as preferences toward certain countries were a challenge particularly in the FoodBev and Biotech Industries. A common fundamental issue was the “Tax structures and entry requirements” [AG4]. The range of policies included, certificate of origins, duty, tax or tariffs, product protections, international standard certifications, registrations and permits.

As discovered earlier, the participating SMEs penetrated into between 5 to 40 countries worldwide, thus faced many challenges. “We have to understand the regulation, know what the authorities want!” [RP5]. Although as one said, “Once we are able to produce the certificate of origin, we don’t have much problem” [EE1]. A number of respondents felt that the problems in the host countries are partially grounded in Malaysia’s international trade policies, requirements and the need for individual SMEs to seek market information and knowledge.

One claimed the lack of understanding of foreign policies was “Partly because of our government policy” [BH7]. Another said “Lack of research on other country’s policy” [TM5]. Some SMEs assumed it was sufficient to gain approvals and certifications from the internal bodies and institutions, however another claimed:

“...That’s not the case. Other countries don’t really accept the approval by SIRIM. They don’t care about the letter from our Ministries either. To them, the approval must come from their authorities!” [BH6]

This indicates that internal certifications were not always helpful to foreign trade. As one CEO suggested, “If you know that you’re going global, get the International
body to recognise your products” [TM5]. By doing so, SMEs could avoid double work and extra costs for international approvals and the research would also help them understand the foreign market environment better.

**Market Environments**

Thirty-five percent of respondents found that failure to understand the market environment created setbacks for internationalisation. The RubPlas, TransMach and BioTech Industries were affected by market environment issues such as a lack of market knowledge on business movement, currency rates, the political environment, buying power, under or overestimating competition and the inability to generate market awareness on their products. Understanding market environments is crucial when entering different markets, as one respondent claimed, “We need to understand and observe how this global economy works” [TM3].

The wealth and income of a country are critical factors in predicting the people’s purchasing power. Certain destinations such as the Middle East and USA markets were promising, but deeper managerial understanding of the market environments was needed. For instance, in the Middle East, personal relations and direct contacts with the owners are essential because their organisations are usually run by Pakistanis or Indians, but as one CEO claimed “If you appease the Arabs who are the owners, everything will be resolved. You will have the business deals” [EE4]. Whereas the USA uses regulations as an excuse to reject the business deals. As this CEO explained, “The US companies make certain orders, if they want to reject, they use regulations” [WF5] and another CEO said, “They don’t want to take it direct from us. They want us to go through their distribution networks” [BH5]. Therefore,
the participating SMEs switched to lesser-purchasing power markets. However, this resulted in price competition. Prices then needed to be adjusted down because “They don’t have monetary capability” [BH1]. Therefore, the SMEs had to compete on price, as some foreign clients favoured cheaper products over quality:

“We can always beat others on the quality, but when it comes to pricing, we lost to Indonesian and Thailand producers because they offer much lower price” [FB4].

“When the Japanese companies enquire about our products, they say the products are expensive. So they buy from Philippines, Indonesia, Thailand, instead” [BH7].

**Distribution Channels**

Thirty-three percent of respondents identified inefficient and ineffective distribution channels were impediments to internationalisation. The SMEs acquired international sales via distribution channels because they lacked the resources, financial, human and expertise to establish sales offices abroad. The choice of international agents and distributors considerably influenced the firms’ ability to provide services to customers and ease of overseas operations as this quote elaborates:

“The problem is to find the ‘right’ distribution channels to reach customers. We have to evaluate whether they could pay and have good marketing network. The right agents can actually accelerate the process of registrations and bringing products into the country” [BH1].

The issues associated with distribution channels included having inadequate information on the dealers or agents; delay in delivering the products; lack of specific knowledge and expertise; and delays in payment. Certain industries (e.g. the AgroMan, FoodBev and BioHerb) could not tolerate delayed delivery because “the
products are very fragile” [AG1] and delay would affect “the conditions and quality of the products” [BH9]. The change of climate affected products sustainability particularly in the AgroMan and BioHerb Industries because of the products’ fragility, perishability and short shelf-life duration. One respondent said, “because of the weather and long distance travel, the products will be damaged by the time they reach Africa and South America” [BH3]. Other industries such as the Electrical and TransMach supplied after sales service, thus needed to “appoint local agents” [EE6] who were “dedicated, committed and trustworthy” [TM5]. That was one reason, as pointed earlier in Section 4.6.1 why business and social relationships were crucial for internationalisation. The selected distribution channels “not only act as agents, but help promote the products” [BH7].

Psychic Distance

Differences in cultural and social attributes termed as ‘psychic distance’ have long been an issue for internationalising firms and 32% responded to this. Lack of understanding of a local cultural and social behaviours in regards to values, norms, customs, languages and beliefs affected overseas business operations. Gaps in communication involved not only language (verbal), but nonverbal signs, such as gestures, how time was perceived and how business was conducted. Subsequently, failure to recognise these pertinent issues shaped malcontent with business conduct and ethics. As one CEO explained, “There are a lot of interpretation mistakes when we deal abroad since the ethics and the business ways are completely different” [BH5].
Some participating SMEs revealed that misinterpretations created difficulties when doing deals and even lost them as this example demonstrates:

“Two years ago, I went to Oman. We wanted to have a tie with them. When we arrived there, the reception was excellent. He showed us around, but the project was not executed. The board of directors thought that our market is too small. They don’t want to compromise their know-how. They thought that by tying with us, we would steal their trade secret. So, they put the breaks on. My point is that because of cultural differences, what they are saying, we know, we can hear, but what they are not saying, we tend to interpret ourselves” [EE4].

Certain countries were not accepting of the English Language, for instance, “if you don’t speak Thai in Thailand, that’s the end of the story!” [EE1 – supported by TM5]. Arab countries also wanted “the business people to speak Arabic” [BH2]. Even in Europe, it was essential to translate information into certain languages, such as French. As explained by one CEO, “We have difficulties because we don’t have language experts within our organisation” [FB6].

**Perception of Others**

The perception of the targeted countries about the products from developing countries in general, and from Malaysia specifically created another challenge for internationalisation. Almost 26% agreed that, “The origin of the products is the concern of receiving countries” [EE5]. Despite that Malaysian goods are exported worldwide, the target markets perceptions are difficult to change. One SME simply said, “some distributors in certain countries do not want the products from Malaysia” [EE5]. This electrical company has tried to sell high-tech products directly from Malaysia and through foreign subsidiaries. Although all the products were manufactured in Malaysia, those sold by the representative from Malaysia
received little attention, but those sold via the subsidiary do better as they are not recognised as Malaysian products.

The interviewees claimed the less positive perception of products from Malaysia and other developing countries included doubt on the product quality, qualm on products’ international standard certifications and the perceived corrupt practises in many Asian businesses. Some countries also prefer Western manufactured products over the Eastern ones “because they think that the Westerners’ products are better!” [EE1] and “the Arabs have a lot of money, so they prefer branded products” [WF3].

4.8.3 Summary Findings on Driving Forces to Internationalisation

The purpose of this section was to discuss the responses to question three and identify the driving forces influencing SME Internationalisation. The motivating dimensions include both domestic and global forces, and the inhibiting dimensions included internal and external barriers. This examination of the driving forces discovered that they were interrelated and profoundly connected to networking relationships. These are summarised in Figure 4.15.

The networking relationships can become the motivator and inhibiting factors to internationalisation. Relevant information on both local and foreign markets and availability of resources provided opportunities for SME internationalisation, but implementation procedures in the form of supports, facilities, international compliances and lack of certain resources inhibited the process. The capability of an SMEs expansion strategy largely depended on the understanding of foreign market
capability gained from information and supports through networking at local and international levels.

**Figure 4.15: Dimensions of the Driving Forces Affecting Internationalisation**

**NB:** Developed from the examination of Research Question 3

**NB:** D1 and D2 – Dimensions of Driving Forces
4.9 Key Drivers Influencing the Internationalisation Process

The previous sections discussed the motives and impediments to SME internationalisation. To provide a deeper understanding, this final section investigates the key drivers influencing the internationalisation process, thus addressing this Research Question 4, “What key drivers affect the internationalisation process in manufacturing SMEs in Malaysia? The key drivers include firm factors and key personnel. Thus, this section focuses on what and how these key drivers enhance the ability of SMEs to expand internationally.

The basic quantitative analysis is supported with relevant comments from the key executives. Summaries of the firm and key personnel factors are presented in figures so that generalisations can be derived and discussed.

4.9.1 Firms Factors Influencing the SME Internationalisation

The overall results of the firm factors influencing internationalisation are shown in Table 4.28. The related items are classified into four themes and fifteen sub-themes. The themes include; Resources; Competencies; the Corporate View; and the Entrepreneurial Orientation. The response rates for the presence of the 15 sub-themes ranged from 54% to 93% and the average percentage was 71%.

The results show that the firms’ resources (82%) and its competencies (70%) are the strongest prerequisite factors for the SMEs to be internationally competitive. These were followed by the corporate view (67%), and highly entrepreneurial orientated strategies (66%).
Table 4.28: Firm Specific Factors Influencing the SME Internationalisation

<table>
<thead>
<tr>
<th>Themes</th>
<th>Sub-Themes</th>
<th>Frequency (N=54)</th>
<th>Percentage (a)</th>
<th>Average % (b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm Resources</td>
<td>Strong Financial Resources</td>
<td>42</td>
<td>77.8%</td>
<td>82.1%</td>
</tr>
<tr>
<td></td>
<td>Competent Human Resources</td>
<td>49</td>
<td>90.7%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Adequate Physical Resources</td>
<td>42</td>
<td>77.8%</td>
<td></td>
</tr>
<tr>
<td>Firm Competencies</td>
<td>Product-Related</td>
<td>50</td>
<td>92.6%</td>
<td>69.9%</td>
</tr>
<tr>
<td></td>
<td>Possess Market Knowledge</td>
<td>32</td>
<td>59.3%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Advanced Technology</td>
<td>30</td>
<td>55.6%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Value added</td>
<td>39</td>
<td>72.2%</td>
<td></td>
</tr>
<tr>
<td>Corporate View</td>
<td>Goal and Vision</td>
<td>36</td>
<td>66.7%</td>
<td>67.3%</td>
</tr>
<tr>
<td></td>
<td>Strategic Plan</td>
<td>38</td>
<td>70.4%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Expectation</td>
<td>35</td>
<td>64.8%</td>
<td></td>
</tr>
<tr>
<td>Entrepreneurial Orientation</td>
<td>Autonomy</td>
<td>37</td>
<td>68.5%</td>
<td>65.9%</td>
</tr>
<tr>
<td></td>
<td>Innovativeness</td>
<td>31</td>
<td>57.4%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Risk taking</td>
<td>35</td>
<td>64.8%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Pro-active ness</td>
<td>46</td>
<td>85.2%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Competitive Aggressiveness</td>
<td>29</td>
<td>53.7%</td>
<td></td>
</tr>
</tbody>
</table>

Table 4.29 demonstrates the ranked patterns of firm-specific factors identified across the industries.

Table 4.29: Patterns of the Firm-Specific Factors According to Industries

<table>
<thead>
<tr>
<th>THEMES</th>
<th>SUB-THEMES</th>
<th>INDUSTRY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm Resources</td>
<td>Strong Financial Resources</td>
<td>Electrical (n=8)</td>
</tr>
<tr>
<td></td>
<td>Competent Human Resources</td>
<td>AgroMan (n=6)</td>
</tr>
<tr>
<td></td>
<td>Sufficient Physical Resources</td>
<td>FoodBay (n=8)</td>
</tr>
<tr>
<td>Firm Competencies</td>
<td>Product-Related</td>
<td>RubPlas (n=6)</td>
</tr>
<tr>
<td></td>
<td>Possess Market Knowledge</td>
<td>TransMach (n=8)</td>
</tr>
<tr>
<td></td>
<td>Advanced Technology</td>
<td>BioHerb (n=9)</td>
</tr>
<tr>
<td></td>
<td>Value added</td>
<td>WoodFurn (n=9)</td>
</tr>
<tr>
<td>Corporate View</td>
<td>Goal and Vision</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Strategic Plan</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Expectation</td>
<td>3</td>
</tr>
<tr>
<td>Entrepreneurial</td>
<td>Autonomy</td>
<td>3</td>
</tr>
<tr>
<td>Orientation</td>
<td>Innovativeness</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Risk taking</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Pro-active ness</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Competitive Aggressiveness</td>
<td>3</td>
</tr>
</tbody>
</table>

Total weighting of firm factor sub-themes \( \sum = 45 \)

| Industry Ranking | 2 | 7 | 4 | 5 | 1 | 6 | 3 |

NOTE: n = number of participants in each industry
KEY: 3 - Strong Firm Factor (Respondents’ Response Rate: 67% and above)
2 - Moderate Firm Factor (Respondents’ Response Rate: 34% to 66%)
1 - Weak Firm Factor (Respondents’ Response Rate: 33% and below)
The weighting of fifteen sub-themes was computed so that the similarities and differences affecting internationalisation can be examined. Rankings of the firm specific factors determined that the TransMach, Electrical and WoodFurn Industries were most affected, followed by the FoodBev, RubPlas and BioHerb Industries. Firm factors were of slightly lesser importance to the AgroMan Industry.

4.9.1.1 Firm Resources

Firm resources included financial, human and physical resources. The two most important themes to emerge were having competent human resources as indicated by 91% of the respondents as the most important influence on the internationalisation process (see Table 4.27). In addition, almost 78% agreed that their companies needed and had strong financial and adequate physical resources to support their international expansions.

The interviews revealed that six industries, or 91% of respondents believed the existence of skilled, reliable and competent employees substantially affected the ability to internationalise. The RubPlas Industry however showed moderate influence. One key executive acknowledged, “All these recognitions, awards, and certificates can’t be achieved without the employees. It is the team work” [FB1]. The employees’ efforts accomplish internationalisation. Yet, competent human resources alone cannot realise internationalisation, and 78% identified that strong financial and adequate financial resources were also critical. As this comment reveals:

“If you want to go global, you must be strong financially. That is number one. The most important is finance. Number two, staff, especially technical staff. They must be capable. They must be loyal and competent people, who can help you promote your product overseas and also help to deliver proper design and quality for overseas’ customers” [EE6].
The involvement of the whole organisation played a vital role in the internationalisation process. One respondent suggested that, “In business, we rely on the 4M Plus One – Man; Machine; Method; Material, and Money” [TM3]. This suggests that the success of international ventures involves commitment of sufficient resources and demands support from the organisation and family members, and requires entrepreneurs to integrate all these resources. This quotation illustrates:

“We have to have supportive people, our husband, our children and our staff. In business, it is not a one-man show, but the whole system has to work together, the structure, the organisation and everything. To be a woman entrepreneur, it is stressful, but, I believe, these are my strength” [FB4].

Concerning physical resources, several items such as upgraded technology, production capabilities, accessibility to raw materials, availability of R&D facilities and the location of the production site were crucial for internationalisation. Seventy-eight percent of respondents, particularly in the Electrical, FoodBev, RubPlas, TransMach and WoodFurn Industries, believed that these physical resources affected the development of the production capabilities required for internationalisation; for example, one CEO claimed, “Our main strength is the production facility; we have production lines that enable us to produce varieties of products” [FB2].

4.9.1.2 Firm Competencies

Firm competencies empower elements that enhance the capability to internationalise. Four elements of firm competencies were identified: products, value-adding, knowledge and advanced technology. Competencies related to products were identified by 92.6% of respondents, who cited the following: “Quality products; Customised products; Different product designs; Production capability; Global
products; Product varieties; Innovative products; Good/Beneficial products; Safe products; ‘Halal’ products; Niche products; and Unique products’.

The Electrical, FoodBev, RubPlas, TransMach, BioHerb and WoodFurn Industries all viewed their products as internationally competitive, whereas the AgroMan Industry expressed some concern about theirs being internationally competitive. This indicates a necessity to enhance product capabilities; for example, by adding value to stimulate interest from international customers. Elements of value-adding were mentioned by more than 72% of the respondents and are highlighted below in Figure 4.16. Value adding strategies can be classified into groupings that relate to standards, services and image, as well as “Pricing, quality and timely delivery” [AG2].

Figure 4.16: Value-added Elements Influencing the SME Internationalisation

<table>
<thead>
<tr>
<th>International Standards</th>
<th>Services</th>
<th>Image</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global manufacturing standard</td>
<td>Good packaging service</td>
<td>Brand name</td>
</tr>
<tr>
<td>Meet international standards &amp; requirements</td>
<td>Prompt and exact delivery</td>
<td>Firm Reputation</td>
</tr>
<tr>
<td>Receive international certifications</td>
<td>After sales service</td>
<td>Brand protection</td>
</tr>
<tr>
<td>Obtain international accreditations</td>
<td>Maintain good service</td>
<td>Gain customers trust</td>
</tr>
<tr>
<td>International ‘Halal’ certification</td>
<td>Cooperative distributors</td>
<td>Good reputation with traders and bankers</td>
</tr>
<tr>
<td></td>
<td>Meticulous designs</td>
<td>International recognition</td>
</tr>
<tr>
<td></td>
<td>Offer social responsibility</td>
<td>Islamic Country Image</td>
</tr>
<tr>
<td></td>
<td>Price advantage</td>
<td>Main National player</td>
</tr>
<tr>
<td></td>
<td>In-house demonstration</td>
<td>Pioneer company</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Well established firm</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Referral from others</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Benchmarked company</td>
</tr>
</tbody>
</table>

Sources: Developed for this thesis
These elements were considered competent when they “comply with international standards” [EE4]. This suggests that international accreditation and recognition does affect firm competencies for going into international markets. Those firms that value-added claimed this provided them with an advantage in the markets, as the following quotations demonstrate:

**International Standard**

“We link our brand with international branding. So, people more or less will look for you - you’ll have solid business” [EE4].

**Service**

“In manufacturing, we believe in three things. One is the quality, the product must have high standard of quality. Second the cost, it must be competitive cost and third, delivery, must be on time” [TM2].

**Image**

“Our firm’s strength relies on Malaysia’s image of an Islamic country and the main producer for ‘Halal’ products” [FB2].

Another important firm competency mentioned by 59.3% of the respondents was having adequate market knowledge and knowledgeable management teams. In some companies, obtaining knowledge and expertise was pivotal to showing that the firms were capable for internationalisation. This was particularly so in the high-tech industries, such as in the TransMach Industry, as this CEO said, “We have to be highly technical, very knowledgeable about what we offer to customers” [TM3].

The need to be technologically competitive was cited by 56% of respondents, and these were mainly from the Electrical and RubPlas Industries. One CEO of a rubber company mentioned, “We have upgraded our machines to more advanced
technology. This way we can compete with the world players” [RP3]. Utilising “modern process of production and high-tech quality system” [EE4] benefited the SMEs as the “firm capacity can be increased” [EE4].

The study found mixed industry patterns concerning knowledge and advanced technology. The Electrical, RubPlas, TransMach and WoodFurn industries relied strongly on updated and relevant market information or knowledge about particular destinations, and engaged in extensive market research. The FoodBev and BioHerb Industries however showed only moderate concern regarding market knowledge and advanced technology, and this was even less important to the AgroMan Industry.

4.9.1.3 Corporate View

A corporate objective of internationalisation, involving the goals, vision, strategic plan and expectations influenced 67.3% of the participating SMEs. The goal and vision was a strong determinant in five industries (The Electrical, FoodBev, TransMach, BioHerb, and WoodFurn). In general, the SMEs demonstrated clear and strong goals for internationalisation and agreed that they set “specific goals and objectives for long-term orientation” [EE4]. They were also ambitious and focused to achieve the corporate goals, as illustrated in the following excerpt:

“We are very sure and focused on what we want to do. When we went to China, we knew we want to have a factory in China. So, we learned about how to set up the plant. Just like Dubai, we visited the free trade zone. We are very specific. Before we get onto the plane we already know what we wanted to do” [TM5].

The goal and vision must be supported by a strategic plan, which was another key factor influencing internationalisation. More than 70% of the respondents
commented that their companies developed long-term business plans and had systematic planning in place for internationalisation and global exporting. This pattern was particularly strong in five industries; but less so for the BioHerb and AgroMan industries, for the reason explained below:

“In the commodity industry, our approach changed every six months. That way, we are able to position ourselves. We have to adapt to changes. We cannot adopt one strategy. When our movements or sales are limited, we have to change according to the needs and the environments” [AG5].

In order to realise their internationalisation plans, the SMEs needed to initiate “strong firm preparedness and exposure” [EE4]. To ensure minimal risks for the companies, some preferred to “expand according to the firm strength and capability” [BH2]. In doing so, expectations of being globally recognised, achieving international standards and requirements, enhancing the family business and penetrating widely into the Asia Pacific and other world regions could be accomplished.

4.9.1.4 Entrepreneurial Orientation

Entrepreneurial orientation considers the processes, practices and decision-making activities leading towards internationalisation. Almost 66% of the corporate executives mentioned that entrepreneurial orientation characteristics, such as risk taking, autonomy, innovativeness, being proactive and competitive aggressiveness influenced their firms’ internationalisation.

Sixty-five percent expressed the need for a risk-taking attitude. International expansion “is not easy, because it involves a lot of risks” [EE8]. Five industries, the
Electrical, RubPlas, TransMach, BioHerb and WoodFurn, strongly supported the need for taking high risks. The AgroMan and FoodBev preferred to play safe, and thus had more moderate risk orientations. The risks included the degree of willingness to, venture into unfamiliar situations, invest relatively large amounts of assets, involve substantial financial borrowings and make large resource commitments. As one respondent suggested, “To go international, we have to be brave and more on being a risk taker” [BH7].

Another highly ranked attribute for 69% of the participating SMEs was allowing autonomy to in their firms. One respondent said, “The whole organisation has to perform and be able to self-address the requirements” [TM1]. Autonomy in this sense reflects the ability and will of the managers to be independent. Evidently, management autonomy extended a firm’s capabilities and was promoted in the Electrical, FoodBev, TransMach, BioHerb and WoodFurn industries, but was practiced less in the AgroMan and RubPlas Industries. The importance of autonomy is shown in this phrase:

“We have a very open type of management. As you can observe from our open office layout, we are small, very flat organisation, everybody talks to everybody. They can ask anything about the company. They are free to ask all their bosses any concerns and free to forward ideas” [EE4].

Therefore, open management increased the entrepreneurial orientation and consequently granted employees the ability to display innovativeness - another key entrepreneurial attribute. Innovations included the development of unique and niche products, variety in product designs, commercialisation of product brands, marketing techniques, production processes and competitive pricing. All seven industries, and
particularly the BioHerb and WoodFurn Industries, strongly supported new ideas and sought creativity to enhance their international position, in the belief this can precipitate proactive behaviour.

*Proactiveness* is demonstrated in how the company takes the initiative to shape its capabilities in order to seize opportunities. The participating SMEs were very proactive (85.2%), particularly in the Electrical, FoodBev, RubPlas, TransMach, BioHerb and WoodFurn industries. Examples of the initiatives taken included: seeking information on new or unexplored markets, introducing new products and product designs, establishing product brands and enhancing production capability. These proactive behaviours consequently contributed to production and managerial capabilities, as the following quotes demonstrate:

“*When we took over the company 4 years ago, the machinery was still old, so now we are in the process of upgrading the machines. We have upgraded almost 50% of the machine*” [RP3].

“*We introduced a new product. This new formulation that we are testing right now is 100% plant-based. It has no chemicals, no synthetic source. We don’t use synthetic preservatives or any synthetic colourings*” [BH5].

The final characteristic of the entrepreneurial orientation is *competitive aggressiveness*. This characteristic was strong in the TransMach industries; however, the other six industries lacked the same aggressiveness. From the interviews, about 54% of respondents demonstrated aggressive behaviours toward internationalisation by responding to trends and demands that already existed in the marketplace; doing things differently to challenge competitors; and trying to outperform the industry leader.
Thus, a consensus from the interviews is that an entrepreneurial orientation towards risk taking, autonomy, innovativeness, being proactive and aggressiveness are essential determinants for successful internationalisation. The findings above have identified ‘what’ and ‘how’ firm factors act as key drivers of internationalisation. The next concern is to examine ‘who’ affects the process and ‘how’ they do so.

4.9.2 Key Personnel Factors Influencing the SME Internationalisation

Four themes and twelve sub-themes emerged from the interview data within the key personnel factors. These include International Orientation, Managerial Capabilities, Personality and Attitudes, Experience and Exposure as summarised in Table 4.30.

The response rates for the 12 sub-themes ranged from 59% to 100%, with an average percentage of 84%. This high rate demonstrates that the respondents believed key managers’ experience, international exposure, their exceptional characteristics and human or social capital were keys for assisting in internationalisation.

<table>
<thead>
<tr>
<th>KEY PERSONNEL FACTORS</th>
<th>Themes</th>
<th>Sub-Themes</th>
<th>Frequency (N=54)</th>
<th>Percentage (a)</th>
<th>Average % (b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>International Orientation</td>
<td>Strong Philosophical Views</td>
<td>38</td>
<td>70.4%</td>
<td>72.7%</td>
<td></td>
</tr>
<tr>
<td>Positive Perception</td>
<td>40</td>
<td>74.1%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High Level of Reaction</td>
<td>47</td>
<td>87.1%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High Degree of Openness</td>
<td>32</td>
<td>59.3%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human/Social Capital Capabilities</td>
<td>Networking Abilities</td>
<td>54</td>
<td>100%</td>
<td>85.2%</td>
<td></td>
</tr>
<tr>
<td>Interpersonal Skills</td>
<td>50</td>
<td>92.6%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management Capability</td>
<td>42</td>
<td>77.8%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management Competencies</td>
<td>38</td>
<td>70.4%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personality and Attitudes</td>
<td>Valuable Personality</td>
<td>47</td>
<td>87.0%</td>
<td>88.0%</td>
<td></td>
</tr>
<tr>
<td>Key (Positive) Attitudes</td>
<td>48</td>
<td>88.9%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Experience and Exposure</td>
<td>Broad Experience</td>
<td>50</td>
<td>92.6%</td>
<td>88.9%</td>
<td></td>
</tr>
<tr>
<td>Broad International Exposure</td>
<td>46</td>
<td>85.2%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The weighted patterns for all seven industries are presented in Table 4.31. Taken together, these ranking shows a consistent valuing of these attributes as discussed below.

### Table 4.31: Patterns of the Key Personnel Factors According to Industries

<table>
<thead>
<tr>
<th>THEMES</th>
<th>SUB-THEMES</th>
<th>INDUSTRY</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Electrical (n=8)</td>
</tr>
<tr>
<td>International Orientation</td>
<td>Strong Philosophical Views</td>
<td>3 2 3 3 3 3 3 3 3</td>
</tr>
<tr>
<td></td>
<td>Positive Perception</td>
<td>3 3 3 3 3 3 3 3 3</td>
</tr>
<tr>
<td></td>
<td>High Level of Reaction</td>
<td>3 3 3 3 3 3 3 3 3</td>
</tr>
<tr>
<td></td>
<td>High Degree of Openness</td>
<td>3 1 2 2 2 2 3 2 3</td>
</tr>
<tr>
<td>Human or Social Capital Capabilities</td>
<td>Networking Abilities</td>
<td>3 3 3 3 3 3 3 3 3</td>
</tr>
<tr>
<td></td>
<td>Interpersonal Skills</td>
<td>3 3 3 3 3 3 3 3 3</td>
</tr>
<tr>
<td></td>
<td>Management Capability</td>
<td>3 3 3 3 3 3 3 3 3</td>
</tr>
<tr>
<td></td>
<td>Management Competencies</td>
<td>3 3 3 3 3 3 3 3 3</td>
</tr>
<tr>
<td>Personality and Attitudes</td>
<td>Valuable Personality</td>
<td>3 3 3 3 3 3 3 3 3</td>
</tr>
<tr>
<td></td>
<td>Key (Positive) Attitudes</td>
<td>3 3 3 3 3 3 3 3 3</td>
</tr>
<tr>
<td>Experience and Exposure</td>
<td>Broad Experience</td>
<td>3 3 3 3 3 3 3 3 3</td>
</tr>
<tr>
<td></td>
<td>International Exposure</td>
<td>3 3 3 3 3 3 3 3 3</td>
</tr>
<tr>
<td><strong>Total weighting of key personnel</strong></td>
<td><strong>33</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Industry Ranking</strong></td>
<td>1 7 5 3 1 6 3</td>
<td></td>
</tr>
</tbody>
</table>

**NOTE:** n = number of participants in each industry

**KEY:**
- 3 - Strong Key Personnel Factor (Respondents’ Response Rate: 67% and above)
- 2 - Moderate Key Personnel Factor (Respondents’ Response Rate: 34% to 66%)
- 1 - Weak Key Personnel Factor (Respondents’ Response Rate: 33% and below)

### 4.9.2.1 International Orientation

Seventy-three percent of respondents agreed that having an international orientation such as broad philosophical view, positive perceptions, high level of reaction and degree of openness of key managers influenced the internationalisation of a firm. The philosophical viewpoints included strong will, desire and urge for foreign investment as well as global expansions that were strongly valued in all industries. More than 70% of respondents portrayed “strong will” and showed positive attitudes
toward internationalisation as they believed “If others can do it, I am able to do it too” [EE5]. One of the founders said:

“You’ll find that people who are so successful overseas always have this philosophy, ‘I want to go out there!’ This means you must have the urge to compete for foreign markets and take up the challenge to become global players” [EE6].

Consequently, strong philosophical view and positive perception contributed to high level of reaction towards internationalisation, which in turn became the key determinant by approximately 87% of the participating SMEs. The reactions included the aptitude to build up internal awareness, a strong will to learn and seek knowledge, the ability to create networks and maintain relationships with others and a love of travel. Another was the ability to learn, as one CEO advised:

“Learn from people. You can learn a lot from people. Sometimes, you talk to petty traders, multimillionaires, monks or professors; you will learn something, always different things. The point is the sources of learning are there, that makes you more exposed to information and knowledge” [EE8].

The best way to expand knowledge was through travelling overseas. Although travelling is a tiresome activity, highly ‘mobile’ managers were critical because “if you put in someone who does not like to travel, the exporting won’t work” [BH3]. About 60% suggested that travelling was a means for enhancing acceptance and understanding towards other countries’ cultures, business practices and social values. However, as one said “We shouldn’t follow their cultures. We even receive a lot of respect if we stick to our beliefs and cultures” [BH6]. This suggests that being able to assimilate into other’s lifestyles increases the key personnel management capabilities when dealing in the international market.
4.9.2.2 Human or Social Capital Capability

More than 85% expressed that human or social capital capability includes networking abilities, interpersonal skills, management capabilities, and management competencies affect internationalisation. These, and particularly the first three factors, affected all seven industries. Management competencies on the other hand, more strongly influenced the internationalisation of the Electrical, RubPlas, TransMach, and WoodFurn industries.

One important observation from the qualitative analysis was the influential role of internal and external network relationships (also discussed in Section 4.6). All respondents concurred that the ability of key managers to network with others was extremely crucial for an SMEs’ international expansion. Regardless of whether the relationships were formal or informal, the advantages gained were unmeasurable. As this CEO verified, “I build up the confidence to deal with people” [WF6]. This indicates the importance of interpersonal skills to deal with others.

Interpersonal skills are the way key managers interact with others; how they treat their clients; how they make links with policymakers and develop social capital with people. This was mentioned by about 93% of respondents. One CEO urged, “You must have interpersonal skills. And communication is very important” [BH7]. This suggests that managers also should be able to converse in English as well as speak and understand other languages. Nevertheless, as one CEO said, “Everybody speaks English, but not necessarily the ‘same’ language” [BH5]. This means more than the ability to comprehend the language literally. For business deals, it is even better if the key personnel are able to read and interpret the meanings accurately, to avoid
misconception because “their understanding with our understanding being at a
different level”. [EE4]. As illustrated in this excerpt:

“When we went to China, we brought a Malay officer who could speak fluent
Mandarin - just like people in China. So we brought him only to listen, but
when we started to negotiate in English, the Chinese associates were talking
in Mandarin, so our guy just listened. That way, we know what they are not
saying! That is strategic move in business” [EE4].

The key managers viewed having networking abilities and interpersonal skills as
requisite to their managerial capabilities, and almost 78% of respondents concluded
their managerial capabilities or expertise assisted the internationalisation process.
One corporate executive suggested, “A good owner must have very good
management exposure” [FB3].

Based on the interviews, the managerial capabilities included management,
marketing, budgeting and planning, leadership, knowledge and decision-making.
Respondents identified that key competencies needed were related (among others) to
the ability of making good judgments, convince and encourage others, gain trust,
address priorities, recognise opportunities and handle challenges. Nevertheless, as
one CEO pointed out:

“All these cannot come instantly. You need to go through processes and
stages. Business to me is a process. A lot of people fail in business because
they don’t want to go through the process. They want to make short cut”
[EE1].

Support for the various managerial capabilities is provided below in Table 4.32.
### Table 4.32: Key Personnel’s Managerial Capabilities

<table>
<thead>
<tr>
<th>Capabilities</th>
<th>Relevant Phrases [The Respondent]</th>
</tr>
</thead>
</table>
| **Management Skills**   | • “Basically the management. I make it work both ways - company and staff. The staff should take care of the company and the company should provide well to the staff. We give appraisal when the staffs have done good jobs, we give them good assessments” [FB3].  
  • “Ability to drive changes ahead of market and managerially competent to mitigate risk” [EE4].                                                                                                                                 |
| **Marketing Strengths** | • “The marketing strategy must be very good. We must plan our own strategy and be more innovative”[FB5].                                                                                                                                                                                                 |
| **Budgeting & Planning**| • “The managers in small business should plan the budget ourselves - because we must know where the money goes, what we do with the money. This would teach us to be a good planner” [AG5].                                                                                                                                 |
| **Leadership Ability**  | • “I would say leadership. I manage to control the whole organisation when I bought this company from the Chinese owner. You know that usually Chinese employees are loyal and they are reluctant to agree with the new leadership, but I did it” [RP3].                                                                                                                                 |
| **Knowledge Capacity**  | • “You have to have good knowledge about the products. The managers must be very strongly involved with the products” [EE2].  
  • You have to have the knowledge of International Business. Customer behaviour in different countries is different. The cultures, the policy and procedures are not the same. For example, the colour you choose for packaging, the word connotation, the brand - you don’t want to give the wrong impression” [BH7].                                                                                                                                 |
| **Decision-making Ability** | • “We have to make decisions. Sometimes in a meeting, I have to make immediate decisions. So I have to know the cost of a certain process, the cost of raw materials, in order to make decisions” [TM3].  
  • “Since I manage and run the business, I can make decisions faster, rather than go through a board. That’ll slow down the process definitely” [WF9].                                                                                                                                 |

These findings suggest that the respondents believed successful internationalisation was founded on management processes that are demonstrated through a long-term commitment, continuous efforts and the managerial expertise of the key managers. The nurturing of competent key managers relies on their personality, attitudes, experience and exposure.
4.9.2.3 Personality and Attitudes

The personality and attitudes of the key personnel were found to be important determinants in the process of firm internationalisation. Table 4.33 outlines the right personalities and attitudes identified by respondents and drawn from the qualitative analysis.

Table 4.33: Desirable Personality and Attitudes of the Key Personnel

<table>
<thead>
<tr>
<th>Desirable Personality</th>
<th>Desirable Attitudes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Honest</td>
<td>Hardworking</td>
</tr>
<tr>
<td>Sincere</td>
<td>Workaholic</td>
</tr>
<tr>
<td>Never Lie</td>
<td>Confident</td>
</tr>
<tr>
<td>Respect Others</td>
<td>Certainty</td>
</tr>
<tr>
<td>Self discipline</td>
<td>Deterministic</td>
</tr>
<tr>
<td>Patient</td>
<td>Trustworthy</td>
</tr>
<tr>
<td>Friendly</td>
<td>Visionary person</td>
</tr>
<tr>
<td>Approachable</td>
<td>Energetic</td>
</tr>
<tr>
<td>Analytical</td>
<td>Consistent</td>
</tr>
<tr>
<td></td>
<td>Alert</td>
</tr>
<tr>
<td></td>
<td>Independent</td>
</tr>
<tr>
<td></td>
<td>Open minded</td>
</tr>
<tr>
<td></td>
<td>Global minded</td>
</tr>
<tr>
<td></td>
<td>Hardcore person</td>
</tr>
<tr>
<td></td>
<td>Courageous</td>
</tr>
<tr>
<td></td>
<td>Committed</td>
</tr>
<tr>
<td></td>
<td>Responsible</td>
</tr>
<tr>
<td></td>
<td>Risk taker</td>
</tr>
</tbody>
</table>

Sources: Developed for this thesis
Note: The items in ‘bold’ were frequently mentioned in the interviews

All seven industries, and 88% of respondents, strongly supported the values, personalities and attitudes of managers as forces for international growth. Quite apart from the importance of excellent interpersonal skills and competent managerial capabilities, having a virtuous personality and ‘righteous attitudes’ toward others, were more revered. One CEO expressed, “Even though your company is strong, people look at you. How you portray yourself, your charisma and your internal values” [BH7]. Others described the desirable personality and attitudes as follows:

“Personally, I believe in the right attitude. The right attitude contributes to the business, to your career or your family life. To be successful in business, 90% is because of the right attitude, and another 15% or 10% is your products or other things” [EE8].
“I think the most important is passion. You must be passionate about what you do. You must like -, if not - you cannot do it. You do not have the courage to go on and face the challenges” [WF4].

“Perseverance, a good attitude, passion, positive, focus and able to forecast. As well as always keep trying, having positive approach, never think that one decline is a setback to you. I see that most sales are made after the customer has said ‘no’ half a dozen times” [RP4].

Therefore, the personality and attitudes of the SME key personnel certainly enhance the firms’ pathway for internationalisation.

4.9.2.4 Experience and Exposure

All seven industries indicated a strong response of key personnel’s experience and experience and exposure toward internationalisation. About 90% of the SMEs stated that their broad experiences in various fields and or different employments had given them immense exposure that shaped their human and managerial capabilities, perceptions, personalities and attitudes towards internationalisation. One CEO described his experiences as follows:

“I started as a lecturer and then became an entrepreneur. I was involved with teaching entrepreneurs, developing seminars on entrepreneurship for the government and private sectors. So, I knew what to expect in global business” [WF6].

One significant determinant was the key managers’ length of work experience. Of the total respondents, 93% had of 15 to more than 35 years work experience. Further to having long tenure, experience was gained through employment variety. The key managers had worked in local, private or public sectors and MNCs, apart from their own companies. The level of expertise also varied, ranging through industrial or
production line, managerial level or R&D experience. This variety helped nurture their experiences, thus better equipping them to deal with the challenges of internationalisation.

Eighty-five percent of SMEs agreed that international exposure influences the internationalisation process. “You have to be exposed to overseas environments” [WF6]. Respondents gained exposures through: attending overseas training and workshops (via the government programmes, employers or their own-initiative), participating in international events (such as seminars, conferences, and exhibitions, etc), experiencing overseas attachments through study or work and travelling (for specific purposes or general. Consequently, key personnel experience, expertise and international exposure influenced their internationalisation of choices.

4.9.3 Summary Findings on Key Drivers to Internationalisation

The purpose of this section was to determine the key drivers that influence the internationalisation process of manufacturing SMEs in Malaysia. The two key drivers identified were, the firm, and key personnel factors. Key personnel factors were most influential and affected 84% of respondents whereas the firm factors were determinants for 71%.

Figure 4.17 summarises the findings investigated for Research Questions 4. This examination identified what stimulated internationalisation, how it was concluded and who the key players were. Their corporate view, strategic planning and international orientations make up the organisational capabilities in enhancing the internationalisation pathway. It is clear that networking abilities play a substantial
role in augmenting competencies of key personnel and the firm. In addition, the key personnel and the firm’s entrepreneurial orientations dimension strengthen these two key drivers further.

**Figure 4.17: Dimensions of the Key Drivers Affecting Internationalisation**

- **D1: Key Personnel Competencies**
  - Management Capability
  - Interpersonal Skills
  - Broad Experience
  - International Exposure
  - Righteous Attitudes
  - Integrity / Hard worker
  - Perseverance / Passion
  - Visionary / Analytical
  - Global Mindset
  - Strong Conscience

- **D2: Firm Competencies**
  - Competent Staff
  - Products Viability
  - Value-added
  - Financial Support
  - R&D Accessibility
  - Raw Material / Equipment
  - Advanced Technology
  - Factory location
  - International Compliances

- **D3: Entrepreneurial Orientation**
  - Autonomy
  - Risk-taking
  - Innovativeness
  - Proactiveness
  - Competitive Aggressiveness

*Source: Developed from the examination of Research Question 4*

*NB: D1, D2 and D3 – Dimensions of Influential Factors*
4.10 Determinants of the Most Influential Factors

This section presents an examination of all themes drawn from the data to identify the most influential factors affecting the internationalisation of the Malaysian SMEs. The analysis reveals six factors emerged as the driving forces and key determinants. In order to determine the most influential factors, response patterns were ranked and are presented in Figure 4.18.

**Figure 4.18: The Most Influential Factor for SME Internationalisation**

Overall, *key personnel* were the first most influential factor affecting the internationalisation of the SMEs in Malaysia. Having broad experience, international exposure and the right personality and attitudes assisted with networking with others. Furthermore, good interpersonal skills and management capability enhanced the key personnel’s competencies to deal with international expansion. In addition, these personnel needed a positive philosophical view and focus on internationalisation.
The *firm factors* were the second most influential. The firms’ resources, such as competent staff, sound financial and physical resources were important to enhance competencies. The firms needed a corporate vision, goal and strategic plans that included internationalisation and an entrepreneurial orientation that allowed for risk-taking, autonomy, innovativeness and being proactive to nurture the behaviour that promoted international growth.

*Internal barriers* ranked third. Impediments were mainly due to government regulations, or policy and procedures for acquiring loans, support and facilities for expansion. Policymakers and politicians interventions posed challenges for internationalising firms. Consequently, *domestic forces* in relation to local market conditions, national industrialisation policy and the firms’ potential for international growth ranked fourth.

The fifth and sixth most influential factors involved the external barriers and *global forces* respectively. Wider market coverage, bigger opportunities and better resources made SMEs reach for globalisation. *External barriers* in regards to the host countries policies, distribution channels, psychic distance and market knowledge were limiting factors.
4.11 Chapter Conclusions

This chapter has presented the analysis of the in-depth interviews with 16 SME experts and 54 founders, owners or key executives of SME firms in manufacturing industries in Malaysia. With the research conceptual framework as the main reference, the findings presented distinctive evidences concerning the internationalisation awareness, dimensions and patterns, driving forces and influential factors for SME internationalisation. Consequently, insights into how and why internationalisation processes occur and who and what contributes to the factors affecting internationalisation of SME industries in Malaysia are demonstrated.

The findings revealed that interrelated factors influence the internationalisation process of Malaysian SMEs. Various paces, a myriad of entry modes and broad market scopes determine the pattern of internationalisation undertaken. A traditional internationalisation pattern is strongly evident, although some companies exhibited rapid and born global patterns, depending on their industry, products, organisational competencies, knowledge and access to information, critical events or because of a change of management.

The study found that while domestic and global forces motivate internationalisation, some aspects of Government and host countries policy, procedures and international requirements inhibit the process. The main drivers of internationalisation centred on key personnel and firm competencies. Entrepreneurial orientations of the key personnel allowed the SME to be more competitive, innovative, and risk-taking, thus preparing the firms to be more proactive toward internationalisation. Substantially,
the findings suggest that networking relationships create internationalisation awareness and provide appropriate pathways for internationalisation.

The next chapter, Chapter 5 discusses the findings and presents the implications of the findings for academic researchers, policymakers and practitioners. Recommendations for future research and limitations of the study are presented based on the conclusions drawn from the overall findings.
CHAPTER 5
DISCUSSION, IMPLICATION AND CONCLUSION

5.1 Overview of the Chapter
This chapter provides the discussion, implications and conclusions of the thesis. The discussion is organised according to the objectives, and the findings of the thesis are put in context with current academic knowledge. Whenever possible, the results are compared with previous findings. This chapter extends the review of the main theoretical insights on international awareness, including the key influential factors, key drivers and determinants, dimensions and patterns affecting SME Internationalisation.

The chapter begins by briefly highlighting the purpose, objectives and approach of the present study. Next, the chapter discusses the results in relation to the five research objectives. This is followed by the theoretical contribution and a discussion on the emergent Malaysian model of the internationalisation of SMEs. It also presents the implications of the findings for policy and practice that may be of interest to academic researchers, policymakers and practitioners. Limitations associated with the present study and the recommendations for future research are provided. Then the chapter concludes with a summary of the contributions this study makes to the extant knowledge on SME internationalisation.
5.2 The Present Study

This study was prompted by the suggestion that internationalisation of SMEs in Malaysia is a new research area (Yeung, 2004b) and further investigation regarding internationalisation issues using an integrated internationalisation perspective, is needed (Etemad, 2004b; Jones et al., 2005). This study was motivated by the increasing role and contributions Small and Medium-sized Enterprises (SMEs) make to economic and social development in Malaysia (Ninth Malaysia Plan, 2006; NSDC, 2006) and the incentives given SMEs’ for outward investment (IMP3 MITI, 2006). Therefore, this study investigates the internationalisation behaviours, patterns, speed, entry mode and scope of manufacturing industries to gain a better understanding on what affects the internationalisation process of Malaysian SMEs.

The first objective of the research was to identify what instigates internationalisation awareness among SMEs in the manufacturing sector. The key finding was that internationalisation awareness was created mainly through the networks that the founders-owners, or key personnel developed with institutions, other business players and through personal relations.

The second objective was to describe the internationalisation process of Malaysian SMEs. The main finding identified the founder-owner or key personnel and firm capabilities were preconditions in determining the patterns of internationalisation, mode of entry and scope of markets.

The third objective was to identify the driving forces that foster and hinder SME internationalisation. Both domestic and global forces can foster internationalisation,
but the networking relationships of SME founder-owners or key personnel substantially influence turning internal and external barriers to internationalisation, into motives or opportunities for international expansion.

The fourth objective was to determine the influential key drivers. The SME founder-owners or key managers were key drivers, who used their abilities, entrepreneurial and international orientations to leverage the firm resources and competencies in internationalising their firms.

Finally, the last objective was to develop a Malaysian SME internationalisation model. An integrated internationalisation model for Malaysian Manufacturing SMEs was founded around the networking abilities of SME founder-owners or key managers. The model highlights the importance of networking abilities that enable SMEs to obtain accurate information, enhance better knowledge and learning, exploit appropriate resources, and identify the know-who-and-how. These are the most influential factors in the internationalisation of Malaysian SMEs.

The present study has integrated aspects from each of the existing internationalisation models, including the Gradual and Rapid models, the Network approach, the Resources-based and the International Entrepreneurship perspectives into the conceptual framework. The study employed a qualitative approach using in-depth interviews.

Overall, interviews with 16 experts and 54 SME practitioners, identified that the internationalisation process of SMEs requires strategic networking of the founders-
owners and/or key manager of the firms with others. Networking created awareness of international opportunities, motivated the firms to internationalise and overcome any impediments of internationalisation and accelerated the process. Consequently, the internationalisation process of Malaysian SMEs is explained by interrelated factors primarily involving the gradual, rapid and born global patterns. These findings contribute to a better understanding of the internationalisation process of SMEs and extend the literature available from a developing country.

Specifically, this study adds to the existing literature on SME internationalisation process by:

i. Identifying the sources and means of internationalisation awareness;

ii. Identifying the dimensions, patterns and scope of the internationalisation process in various SME industries;

iii. Identifying the driving forces that foster and hinder the internationalisation process;

iv. Determining other influential factors and the key drivers that influence the internationalisation process of Malaysian SMEs; and

v. Developing an integrated model of the internationalisation process of SMEs in Malaysia.

The following sections discuss each research objective and its respective theoretical contributions in more depth.
5.3 Discussion on Research Findings and Contributions to Theory

The key findings for each of the five research objectives are summarised and explained within the context of current academic knowledge.

5.3.1 Objective 1

To identify what instigates internationalisation awareness among SMEs in the manufacturing sector

The analysis of both experts and SMEs practitioners regarding this objective focused on factors such as ‘what’ and ‘how’ SMEs gain internationalisation awareness. These two issues are explained below.

5.3.1.1 Understanding of ‘Internationalisation’

Internationalisation of firms is associated with the outward process, markets, resources, foreign sales, networking, opportunity and requirements. Except for the ‘opportunity’ and ‘requirements’, these terms match the theoretical definitions on internationalisation by Calof and Beamish (1995, p.116) and Javalgi, Griffith and White (2003, p.186). Thus, two pertinent issues emerged. First, SME practitioners in Malaysia have a good understanding of internationalisation as a concept, and second, the addition of ‘opportunity’ and ‘requirements’ enhanced previous theoretical definitions of internationalisation.

As highlighted by one interviewee, “Everybody is looking for opportunities” [WF5]. Realizing where opportunities existed and knowing how and when to seize those opportunities, lead to the change. Oviatt and McDougall (1996) point out that the
ability to act on opportunities is an advantage for SMEs, and in Malaysia, opportunity and requirements always seem to be linked to who you know. As can often be the case, if the founder/s, CEOs or the executive managers of the company know someone in higher authority, or a political figure, the company can deal with inflexible requirements more easily. This perception is consistent with the findings of other studies (e.g., Bonaccorsi, 1992; Cavusgil, 1984; Dhanaraj et al., 2003) that linking with important institutions and/or people can bring benefit to the SMEs.

5.3.1.2 The Creation of Internationalisation Awareness

Awareness of international opportunities is also be influenced by the domestic and foreign networks of the firm’s founders or corporate executives. When searching for international opportunities, it is the founders or the firms’ corporate executives who initiate the link with others, which supports Dana’s suggestion (2001, p.57) that “Networks provide opportunities for small business”. Johanson and Mattson (1988) also report that being connected with others allows SMEs to gain knowledge on foreign markets, which matches the findings of other studies including Dubini and Aldrich (1991), Liesch and Knight (1999), and Ojala and Tyrväinen (2008). By having extended networks, SMEs become aware of pertinent information that in turn creates opportunities for firms to internationalise.

Both the experts and practitioners agreed there are a variety of means, directions and types of networks and how networks are created. The most obvious are through the government or non-government institutions, other industry players or business associates and personal relations. These networking mechanisms are also found in other studies (Ambler & Styles, 2000; Elfring & Hulsink, 2007; Johanson et al.,
1990). Similar to Luo, Hsu and Liu’s (2008), this study also revealed that government networking and distribution channels, such as distributors, suppliers and retailers, are important means for internationalising. The study also found that simultaneous networking with institutions (i.e. government and government support systems), other players (i.e. other firms, suppliers, distributions channels, forwarding and exporting agents, customs and vendors) and personal relations with (i.e. families, friends, professional friends, business associates and clients) can assist the process of internationalisation.

Although networking is crucial, this study identified that certain criteria such as size, product, industry, business type, owner ethnicity and share status can determine the means and directions of international opportunities. Smaller-sized SMEs are more likely to seize information from related-government bodies, such as Small and Medium Industries Development Corporation (SMIDEC), Majlis Amanah Rakyat (MARA) and the Malaysian External Trade Development Corporation MATRADE, but larger sized SMEs go to the Malaysian Industrial Development Authority (MIDA) and the Ministry of International Trade and Industry (MITI).

The heavy-manufacturing SME industries, for example the Electrical and Electronics, Transport and Machinery Equipment, Furniture and Wood-based and Rubber and Plastic-based industries, access better information on entry requirements, if they are linked with Industrial Linkages Programmes (ILPs) and Government-Linked Companies (GLCs). The SMEs associated with ILPs and GLCs are usually the vendor/subcontractor companies for local and foreign MNCs. Companies within the Food and Beverages, Agro-based products, and Bio-technology and Herbal-
based industries are usually family-owned businesses. Their awareness of international opportunities is via information gained from the related-government bodies, such as the Ministry of Entrepreneur and Cooperative Development (MECD), the Federal Association of Malaysia Agriculture (FAMA), MARA and Malaysia Palm Oil Board (MPOB). This suggests that SMEs must identify the most effective or appropriate agencies to assist their internationalisation process. This finding clearly supports the role of government agencies in giving assisting SME expansion and development in Malaysia (NSDC, 2007; SMIDEC, 2002). It also helps explain why Hashim and Hassan (2008) found that the incentives extended by the government agencies have contributed to SMEs’ export performance.

The findings also revealed that SMEs gain information on international opportunities when they participate in national and/or international seminars, conferences and exhibitions. They can utilise the incentives provided by the MATRADE, SMIDEC, MARA, MITI, and FAMA or they can attend using their own expenses. The founders or key personnel use these avenues to create, enhance or sustain their business and social networks with other business associates, officials or relevant individuals. Subsequently, the exchange of ideas and thoughts enables the SMEs to better understand the process of internationalisation and generate new ideas. The benefits of participating in international trade corroborates Evers and Knight’s study (2008) which found that trade shows can be an effective platform to market products, gain information, establish and enhance networks, as well as facilitate SME internationalisation. It also concurs with Björkman and Kock’s (1995) finding that participating in these exhibitions enables the SMEs to create social relationships
which can become channels for information and commercial exchanges, and accelerate the internationalisation process.

This study also discovered that manufacturing SMEs in Malaysia can obtain privileged international opportunities if they have connections with multinational corporations, particularly Japanese MNCs. The companies gain a network of information and knowledge because of their inclusion in the Japanese business groups, and ‘kereitsu’ and ‘sogo shosha’, contribute to their international expansion. These connections helped some survive during the Asian economic turmoil in 1997/98, which supports findings of other studies (Harvie et al., 2002; Mori, 2005; Peng, Lee, & Tan, 2001) that being part of ‘kereitsu’ and ‘sogo shosha’ can be a source of competitive advantage and firm survival.

The owners’ ethnicity also shapes the flow of information among SMEs. The findings uncovered that Chinese small businesses always form long-lasting business networks and share information, knowledge and resources among themselves. This provides extensive social and business relationships and eases cross-border operations without much government influence, indicating that ‘guanxi’, the interpersonal relationships within the Chinese community, exists in Malaysia. This supports Fulop and Richards’s (2002) finding that Chinese-related companies in Asia build up and maintain business relationships and networks. However, regardless of ethnicity, information and overseas opportunities are still shared among the SMEs because of personal relations.
This occurs because Malaysia’s cultures are relationships-oriented and emphasize collectivism, implying that the group (whether it be a friend, a team, an organisation, or a family) is more important than the individual (Ahmad & Seet, 2009; Asma, 1996). So naturally, there is a predisposition to spread information and awareness on international opportunities to other SMEs. This finding gives credence to Hofstede’s (1983) assessment that Malaysia is clustered within a high collectivist group and conforms to Adler’s (2004) finding of strong cooperation in the Malaysian society. The Malaysian SMEs founders and executives’ willingness to share information and knowledge on international opportunities with other SMEs show this value of collectivism.

In summary, Malaysian SMEs learn of international opportunities and processes through government linkages, networking with other players and from personal contacts, as well as sources such as internet, market research, reading and observations. This finding supports Blankenburg’s (2001) proposition that converging various types of interactions through multi-linkages with different agencies and institutions strengthen the founders’ network, providing more avenues to access to international opportunities. This also concurs with previous findings, which found that knowledge of foreign market opportunities develops from these relationships (Axelsson & Easton, 1992; Coviello et al., 1995; Johanson et al., 1988; Ling-Yee, 2006). Taken together, the SME owners-managers’ awareness is the initial condition for internationalisation, which highlights the importance of “ownership-specific” (O) advantage, as described in the OLI eclectic paradigm (Dunning, 1977, 1988, 2000).
Based on the above discussion on internationalisation awareness, the relationships between the variables are described in the following propositions:

**P1: Internationalisation Awareness that is created through networks with institutions, other business and/or industry players, and personal relations is a necessary condition for SMEs to internationalise.**

- **P1a:** Internationalisation awareness increases when SMEs have linkages with government and/or supporting government agencies.
- **P1b:** Internationalisation awareness increases when SMEs have linkages with big local and/or global companies.
- **P1c:** Internationalisation awareness increases when SMEs participate in international and domestic trades.
- **P1d:** Internationalisation awareness increases through personal relationships with peers and colleagues.

5.3.2 **Objective 2**

*To describe the internationalisation process by examining the dimensions, patterns and scopes*

The analysis of the Internationalisation process uncovers ‘how’ internationalisation occurs within the Malaysian manufacturing industries. The findings revealed that although the SMEs were keen on following a traditional pattern (50%), they also experienced rapid (35%) and born global (15%) pathways to internationalisation. The patterns are distinguished by the speed, process, market scope and entry mode as well as the triggering factors as suggested by Bell et al. (2003).
5.3.2.1 Criteria of the Internationalisation Patterns

*Traditional Pattern*

The study found that the *traditional* pattern companies internationalised in an incremental manner and in stages, and operated mainly in proximal markets because of cultural, social and economic similarities. This finding gives credence to the Uppsala (Johanson et al., 1977; Johanson et al., 1975) and Stages models (Leonidou et al., 1996; Moon et al., 1990; Rao et al., 1992). However, as proposed in the Uppsala Model, the process of internationalisation is according to four gradual steps (i.e. No exporting, Exporting via agents, Sale subsidiary and Wholly-owned subsidiary (Johanson et al., 1977), yet three companies in this study experienced different numbers of stages. These firms varied the stages because their internationalisation process was influenced by the efforts of the owners or managers of the company (RP2), financial and other assistance from government agencies (WF6) and extensive research conducted by the company or collaboration with government research institutes and higher public tertiary institutions (AG6).

The finding that extensive government-supported R&D exists in Malaysia contradicts earlier studies that suggest developing countries provide little R&D support to SMEs (Crane, 1977 as cited in Malecki, 2007). This strengthens the arguments that stages of internationalisation may differ due to organisational capability (Dalli, 1994), managerial capability (Cavusgil & Godiwalla, 1982), experiential knowledge (Johanson et al., 2003b) and changes in the business environment (Erikkson et al., 2000) which were all found in this study.
Although the selection of physically close markets is consistent with the incremental models, as well as the POM (Product, Operation and Market) model (Chetty, 1999; Welch et al., 1988), four of 27 traditional-pattern companies (i.e. EE2, BH6, BH5 and FB5) ventured into a few distant markets, (i.e. Middle East, China, Australia and United Kingdom) because of customers’ buying power, huge demand, and preference for new products. Therefore, this finding discounts the ‘psychic distance’ effect proposed in the POM model and Daniels and Radebaugh’s (2001) model, which suggested that the traditional-pattern companies tend to expand to nearby markets for cultural and social similarities. No doubt, the ‘psychic distance’ in terms of territory between those four countries is very high, but not the cultures, beliefs and business practices. Thus, the finding supports Andersen’s (1993) argument that the stages models lack congruence between theory and practice. Rather a firm’s direct exposure to the markets (Chetty et al., 2003a) is more important than the boundaries.

With regard to foreign entry modes, the operating methods involved traders, agents, distributors and direct exporting. This suggests an application of a low commitment or conventional approach to internationalisation, which fits the Uppsala model and conforms to other studies claims (Andersen, 1993; Gankema et al., 1997; Vissak, 2004) that the traditional pattern lacks evidence for a high commitment or complicated mode of entry. This is probably associated with the type of business and family businesses seem to be dominant users of the traditional pattern. Family businesses are less likely to internationalise, compared to those connected with industrial linkages programmes (ILPs) and the government-linked companies (GLCs). They are only triggered to do so when their firms have a strong domestic
position, available resources, production capability, and the managerial ability. This confirms others findings that incremental models have mixed support in internationalisation research (Coviello et al., 1999).

**Rapid Pattern**

The characteristics of the rapid pattern of entry uncovered in this study include, a speed of 1 to 5 years from establishment, foreign sales growth of 30–70%, entry into many close and distant markets and a range of high to low commitment modes of entry. Other strategies included targeting a specialist niche, unique or high technology products and or being involved in high technology and/or research-based industries (i.e. Electrical & Electronics, Bio-technology & Herbal-based, and Rubber & Plastics-based industries). These criteria have been mentioned in previous studies (Bell, 1995a; Jones et al., 2004b; Oviatt et al., 1994); however, the percentage of foreign sales is found to exceed earlier evidence (Bell et al., 2000; Rasmussen et al., 2007) by at least 25%. Thus, in comparison with SMEs in developed countries, Malaysian SMEs sell higher volumes abroad, indicating the desirability and preference for their products.

The findings also reveal that the change of firm ownerships, strategic networks, strong local growth and involvement with government policy were keys for firms to take the rapid pathway to internationalisation. The first two issues are similar to Bell et al.’s (2003) triggering factors for a rapid pattern; however establishing a strong domestic foothold before venturing out, fits with the Stage and Uppsala models (Cavusgil, 1980; Johanson et al., 1990), thus not fully supporting Bell et al.’s (2003) criteria for the rapid pattern. Nevertheless, this is in line with Malaysia’s general
policy that SMEs need to reinforce their basic requirements prior to global expansion (SMIDEC, 2002). The Ninth Malaysia Plan (2006) and the Third Industrial Master Plan (2006) have resulted in SMEs linkages with MNCs, ILPs and GLCs, to accelerate the internationalisation processes, and in turn, has also created born-global SMEs.

**Born Global Pattern**

Several criteria were identified in relation to the *born global* pattern. These include internationalisation from inception, or less than a year of firm foundation, penetration into many physically distant and or close markets, high commitment to conventional entry modes and production of 40 to 100% for foreign sales. These characteristics were commonly outlined in previous studies (Bell et al., 2000; Jones et al., 2005; Luostarinen et al., 2004). Interestingly, this pattern is obvious not only in high-tech industries but also in the Agro Manufacturing and Wood-based & Furniture industries. Surprisingly, two very successful born-global Agro companies penetrated more than 35 countries with 100% of foreign sales. While two furniture born-global companies strengthen earlier findings that Malaysia furniture firms follow a fast track internationalisation pattern to distant markets such as Europe (Andersson et al., 2006).

The association of the born-global pattern with ‘systematic internationalisation’ extends the criteria of this pattern. Although some studies have provided various descriptions of born-global companies, different researchers in other settings may illustrate the pattern differently (Luostarinen et al., 2004). In the context of Malaysia, the born-global internationalisation pattern is more likely when the SME
owner/s or key managers have a high entrepreneurial spirit, and are internationally orientated. Those companies especially the high-tech or knowledge-based businesses that have these traits instilled within their main actors, can leverage their vision, organisational plan, strategy and resources effectively, in turn accelerate them to move into global markets successfully.

Consequently, the existence of traditional, rapid and born global as the patterns of internationalisation do not fully support the four phases of Start-up, Growth, Expansion and Maturity outlined in Malaysia’s SME Development Plan (SMIDEC, 2002) for global market expansion. This indicates many Malaysian SMEs do not necessarily follow phased internationalisation.

5.3.2.2 Preconditions of the Internationalisation Pattern

Drawing on the findings of this study, the following points contribute to our understanding of the internationalisation process of Malaysian manufacturing SMEs:

- The Malaysian SME Internationalisation patterns, which include traditional, rapid and born global patterns, are conditional on several factors. These include the types of industries, products, firm’s demographics, structure, resources and capabilities and also the ownership status and business owners or managers’ characteristics and abilities. These aspects affect the speed, mode of foreign entry, extent and market scope, and as pointed out by other researchers thus determine the patterns of internationalisation (Jones et al., 2005; Zahra et al., 2002). This matches the antecedents of internationalisation found in previous studies (e.g., Beamish & Lee, 2003;
The myriad of foreign entry modes and the numerous farther markets entered indicates that although physically distant, many countries are ‘psychically’ close to the Malaysian environment. Penetration into the Middle-East and other Moslem countries is due to the higher demand of ‘halal’ products among the Moslem population, whereas entry into the European markets can be related to past colonisation. As a Commonwealth country, Malaysia has the advantage of similar political and business systems when dealing with other member countries. The Malaysian SMEs products are well accepted in Europe and the UK as there is a high acceptance of Malaysian cultures and foods. Historical similarities, and the fact that Malaysian goods are often cheaper but of equal quality, allow Malaysian SMEs to internationalise into physically distant countries. This discounts the psychic distance effect proposed by Chetty (1999) and Welch et al.(1988).

Producing ‘halal’ manufactured goods allows many SME manufacturers in the Food & Beverages, Agro Manufacturing and Bio-Technology & Herbal industries to explore near and distant markets. Since the launch of Malaysia’s ‘halal’ hub in 2006, the SMEs’ ‘halal’ products have entered countries worldwide, including Europe, the Middle East, the United States and also the Asian Region. For instance, an Australian SME (Quality Society of Australasia Ltd International) has joined with a Malaysian company (Quantum Foodlink Sdn Bhd) to export ‘halal’ quality, safe-food products to the rest of the world. This was an important step to provide greater
opportunity for the Malaysian enterprise to access international markets (http://www.highbeam.com/doc/1P2-13387001.html).

- Malaysian SMEs are prepared to venture out and adapt easily into the global environment. This is because Malaysia, as a multi-racial and multi-religion country, is well exposed to many cultures. For instance, many Malaysian SMEs tend to do business in China as they are physically close and can easily adapt to the language, cultures and business practices (Rasiah, 2002). China is also Malaysia’s fourth trading partner, valuing at US$23.57 billion and contributing to 17.3% in 2007 (http://www.statistics.gov.my).

- This study uncovered some unique aspects that contribute to new behaviours affecting the pattern of internationalisation. These include critical incidents, (i.e. the response to the Japanese Encephalitis epidemics (1997/1999) and Asian 97/98 economic crisis), the ability to react, (i.e. react to local acceptance, other’s perception and policymakers’ mindsets), personal reasons, (i.e. self-intent, dignity, freedom and paying back to society) and global community concern (i.e. ‘Halal’ products and assisting other needy countries). These are new findings from a developing country and add to extant literature on the SME internationalisation process.

- In 1997/1998, Malaysia faced a few critical events that had various significant impacts on Malaysia's trade, environment, culture and politics. During this period, the respondents in this study claimed that the survival and sustainability of many large companies, as well as SMEs, were at the brink. Many SME operations were either temporarily halted or permanently closed down. These critical events included:
o The Japanese Encephalitis (JE) outbreak in Malaysia known as the ‘Nipah Case’ had paralysed pig-businesses and caused human fatalities (http://www1.american.edu/TED/pigvirus.htm). Thus, SMEs involved in this industry had to find other markets to survive.

o The Asian economic crisis, which was a result of a currency and financial calamity, had a profound impact on large and small companies. This affected financial facilities, government stimulus policies and institutional networking. Even after almost a decade, the effects of this economic crisis are still felt in Malaysia (Harvie, 2002).

o Political instability due to the expulsion of the Malaysian Deputy Prime Minister. According to Ishak (2001) the political turbulence has increased people’s activism as Malaysia’s politics became the talk of the world. Consequently, some MNCs revised their operations in Malaysia, which affected the survival of many SME supplier companies.

- Another interesting finding was that criteria for a traditional pattern found in this study extends the Uppsala and Stages Models, and also fits with Bell et al.’s (2001) description of the ‘born-global again’ pattern, in that firms internationalise due to a change in management. The network criterion matches Johnsen and Johnsen’s (1999) contention that a firm develops networks by exchanging and sharing activities and resources with others, particularly with the government agencies. Furthermore, the alertness of founders and/or key managers to initiate internationalisation is similar to the International Entrepreneurship perspective, in that founders and or key managers need to be proactive, and possess international entrepreneurial
values (Lumpkin et al., 1996) as well as managerial capabilities (Dimitratos et al., 2003; Zahra, Korri, & Yu, 2005).

In summary, the findings on the patterns of internationalisation refine the relevance of incremental or ‘stage’ models; SMEs internationalise not only via traditional approaches but also through rapid and born global patterns. Ultimately, the network perspective provides an alternative to the incremental models by suggesting that various network relationships increase the speed, extent and scope of foreign market penetration. In contrast to the stage models, the SMEs in this study enter foreign markets using low to higher commitment modes, and penetrate nearby to faraway markets, thus disregarding psychic distance. Overall, it is the networking relationship that speeds up the process and also extends the scope of foreign market penetration, thus is indicative of “ownership-specific” (O) and “internalising advantage” (I) elements of Dunning’s (1977; 1988; 2000) and the OLI eclectic paradigm.

Based on this discussion of the internationalisation process issues, the relationships between the variables are described in the following propositions:

**P2: Having network relationships help speed up internationalisation processes.**

P2a: The absence of network leads to inability to speed up the identification of a niche market, which then leads to a longer internationalisation process.

P2b: Relevant institutional network relationships increase the speed, enhance the mode of entry, and enlarge the market scope of the internationalisation process.
P2c: Political and/or economic instability leads to uncertainty in SME operations that in turn slow down and/or may complicate the internationalisation process; however networking with relevant people can help accelerate the process.

5.3.3 Objective 3

To identify the driving forces that foster and hinder the internationalisation process of the Malaysian SMEs

The driving forces for internationalisation that focused on motivating and inhibiting factors were interrelated. Although the dimensions of driving forces were examined from the Resource-based view (Barney, 1991), the findings linked networking relationships to the SME founders-owners and/or key managers. This observation conforms to the earlier conclusion that networks formed by the decision-makers can be the catalyst for internationalisation (Coviello et al., 1999; Coviello et al., 1997; Jansson et al., 2008; Shaw, 2006).

Besides network relationships, the local and foreign environmental conditions, and internal and external capability affect the driving forces. This suggests that the founders-owners and/or managers’ networking relationships within and outside the firm can foster internationalisation. This is consistent with Etemad’s (2004b) suggestion that the entrepreneur, firm, environment and market are influential-interrelated factors, which become the ‘pushing and pulling’ forces for internationalisation. Therefore, discussion of the third research issue on what fosters
and hinders SME Internationalisation focuses on the ‘pushing-pulling’ factors and ‘internal-external’ barriers.

5.3.3.1 Motives For Internationalisation – Pushing and Pulling Factors

A number of domestic forces acting as pushing factors encouraged SMEs to internationalise; these included responding to market conditions, the need for expansion, reacting to national issues and availability of government arrangements. These were congruent with motivations identified in previous studies; however, the finding extends the extant literature on why SMEs in developing countries internationalise, particularly in regards to local business environment issues.

Stiff competition and market saturation were the main motives for Malaysian SMEs undertaking internationalisation. Since the market is very small, intense competition can affect the growth of small businesses. Thus, to ensure firm growth and to gain better profits SMEs are triggered to engage in international activities. This concurs with many studies (e.g., Czinkota et al., 2002; Etemad, 2004a; Leonidou, 1995b) that have found internationalisation allows SMEs ensure business growth to sustain their companies. Further, the saturation of domestic markets was among the main motivations identified by Castro (2000) for Portuguese firms investing abroad.

In this study, the companies (i.e. Food & Beverages, Biotechnology, Rubber & Plastic-based and Transport & Machinery) claimed that the local market has become very competitive after Malaysia was launched as the ‘World Halal Hub Centre’ in 2006 (Halal Industry Development Corporation, 2006). Also in the same year, the development of a Biotechnology Industry was being emphasised (IMP3 MITI, 2006;
Ninth Malaysia Plan, 2006). This further intensifies competition because the Biotech Industry is also associated with ‘halal’ products and manufacturing.

The worldwide ‘halal’ market is estimated to be worth US$2.3 trillion, supporting the Governments’ confidence that Malaysia could emerge as a major global ‘halal’ hub in the future (Bernama, 2009a). Therefore, many Malaysian states have designated ‘halal’ manufacturing sites for SME operations. For instance, the State of Malacca has allocated a 175.01 hectares site worth RM55.4 million (about US$200 million) for ‘halal’ manufacturing (Daganghalal, 2009), while 16,000 hectares, worth RM9 billion (about US$33 billion) of investment was launched in Sarawak (NST, 2009), and other states have been doing likewise.

Since then, many small businesses have been established and supported with various financial incentives, including investment tax allowances, exemptions from statutory income from export sales and import duty on raw materials and also, double deductions on expenses incurred in obtaining international quality standards will be granted (Abdullah Badawi, 2009). The government support arrangements, through incentives and facilities, have motivated SMEs and particularly small family businesses, in the Agro Manufacturing, Food & Beverages, Rubber & Plastic-based and Wood-based and Furniture industries.

Several other studies found that the government supports motivate SME internationalising activities (Crick et al., 1997; Johnsen et al., 1999; Karagozoghu et al., 1998). This support has been used to trigger SMEs in developing countries, such as South Africa (Gumede & Rasmusen, 2002), Nigeria (Ibeh et al., 2001) and India
(Naidu et al., 1997) to internationalise. This finding for Malaysia supports others (Abdul Rashid et al., 2002; Hashim et al., 2008; Moha-Asri, 1995) who identified that the financial supports, particularly from agencies such as MARA, FAMA, and SMIDEC, assisted the growth of SMEs, while MATRADE particularly facilitates their international activities.

In addition, the links with these government agencies and other institutions motivate SMEs to internationalise because they can access relevant and updated information. Having appropriate knowledge gives the Malaysian SMEs easier and faster ways to promote their products abroad, which was another triggering factor found in this study. Enhanced networking supports heavy-manufacturing and knowledge-intensive companies, particularly in the Electrical & Electronics, Transportation & Machinery Equipments and Rubber & Plastic-based industries, promote their products. This is in line with Ojala’s (2009) findings that advanced networking accelerated the internationalisation activities of small high-technology companies in Finland.

The country’s philosophical view that ‘Malaysia Can’ also appeared to encourage many SMEs to prove to others that smallness and the status as a developing country were not obstacles to creating names abroad. This suggests that a shared philosophical view among the SMEs can trigger innovativeness and entrepreneurial orientations to meet global demand, thus easing the way for internationalisation. This finding however, has not been discussed in previous studies. This indicates that reacting to the nation’s philosophy can also be a reason for SMEs to internationalise.
Lack of local awareness on SMEs products was another triggering factor for SMEs to internationalise. The SMEs, particularly the Biotech & Herbal and Rubber & Plastic-based products companies, claimed that locals were not as aware as foreign customers of their products benefits. They believed promotional support is lacking nation-wide and this is needed from the government. Product commercialisation requires support-mechanisms from the SMEs’ institutions (Milton-Smith, 2001). Consequently, these domestic factors have triggered Malaysian SMEs to internationalise. This study supports Ibrahim’s (2004) contention that SMEs are pushed to venture out because of unattractive home local conditions at the macro level.

Among the key global factors designating the pulling factors that motivate Malaysian SMEs to internationalise, are better global market conditions, globalisation effects, following clients or customers’ locations, regional economic-integration and seeking for more advanced resources. According to Bartlett and Ghoshal (2000) these factors are more associated with developed countries and MNCs, yet this study uncovered similar findings. The study also found that the global-pulling forces have a higher impact on SME internationalisation, as compared to domestic forces. This is in line with the Organisation for Economic Co-operation and Development (OECD, 1997) and Rodriguez’s (2007) findings.

Global market conditions, such as larger size, more opportunities and better market awareness are the key pull factors, as the domestic market lacks these. Having advanced market knowledge, which is influenced by globalisation, assisted SME owners-managers recognise the policies, requirements and procedures required in
selected foreign markets. Globalisation has motivated many SMEs to strategise the company’s plans, activities and business practices toward the global market. In addition, increasing waves of economic integration, freer trade and investment trends and liberalisation have translated into many opportunities for the SMEs. Further, as globalisation demands standardised products and procedures, gaining accreditation makes the internationalisation process more feasible. In turn, the Malaysian SMEs make an effort to obtain accreditation for safety and quality from both national and international bodies. This condition links to Czinkota and Ronkainen (2005) suggestion that globalisation increases the frequency and duration of linkages between countries, leading to similarities of individual and company practices and governments policies.

In any case, these findings highlight the importance of entrepreneurial capability in recognising appropriate markets and acknowledging specific problems, for successful internationalisation. Companies or their agents need to establish necessary networks and in turn keep themselves informed about international opportunities. In some cases, however, SMEs encountered several impediments to meeting global standards or various government policies and their company’s goals.

5.3.3.2 Barriers to Internationalisation
Malaysian SMEs face difficulties at both local and international levels. As highlighted in Chapter 4, more than half of the respondents face internal barriers. This finding differs from Freeman and Reid’s (2006) finding that external constraints caused more setbacks to Australian SMEs entering European markets. It could be posited that in Malaysia, internal constraints such as government policies, political
intervention and regulations and procedures were the main hindrance to the internationalisation process.

Lack of standardisation and transparency on government policies in regards to SME loans, grants, funding and/or facilities provides unclear direction for the SMEs. Meticulous adherence to bureaucracy and protocols in applying these incentives and facilities are the most critical issue. The Malaysian SMEs acknowledged the importance of ‘know-who and know-how’ in speeding up the needed facilities or to secure approval. This finding agrees with Adhikari, Derashid, & Zhang (2006) who revealed that ‘political connections’ are a significant determinant for smoothing the business and/or non-business processes in Malaysia. While, most involved merely ‘networking reciprocity relationships’, in a few instances, giving ‘fees or tokens’ to certain officials and or politicians is one way of assisting the process. The latter practices can cause discomfort among business practitioners in Malaysia (Gomez, 2002; Gomez & Jomo, 1998; Johnson & Mitton, 2003). Inevitably, little can be done in a short period, as change requires changing the mindsets of the group of people involved in these unethical activities.

As for the regulations and procedures, the processes and time taken to get approval for loans and/or other capital facilities affects SME’s ability to get financial support. For instance, although there are available financial services such as the SMI banks, MARA, and SMIDEC, the application process may take nine steps to be approved and the decision time may consume anywhere between six months to a year. Thus, some potential business opportunities have to be neglected. However, this slow turn-around time to approve documentation appears to be a world-wide problem, and
is experienced in Europe (Freeman et al., 2006), Africa (Gumede et al., 2002), and East Asia (Harvey, 2004).

Besides being constrained by internal barriers, Malaysian SMEs also encounter external constraints. For instance, they were encumbered by the requirements and policies of the host countries. Appallingly, in some cases the SMEs relate these constraints to Malaysia’s international trade policies, especially in regards to international standard certifications, certificates of origins, tariffs and permits and registrations. For instance, the SMEs claim that quality and safety standard certifications endorsed by the Standards and Industrial Research Institute of Malaysia (SIRIM) are inadequate for international markets, especially for buyers in developed nations such as Europe and the USA. Different tariffs rates across individual industries and countries also cause setbacks to Malaysian SMEs. These findings are also noted as barriers for SME internationalisation by Fliess and Busquets (2006) in the Organisation for Economic Co-operation and Development (OECD) forum. Obtaining international approval in regard to international safety standards is another constraint for SMEs, since this involves a substantial cost. The high cost involved in acquiring specific resources supports Shepherd and Wiklund’s (2005) resource-based view.

*Lack of foreign market knowledge* including failure to recognise the intensity of global competition, inappropriate selection of distribution channels, and a lack of understanding of the cultural, social and business practices, was another substantial barriers for Malaysian SMEs. This study found that the most affected industries are the Food & Beverages, Bio-technology and Herbal-based. These industries
manufacture ‘cultural-sensitive’ products, and usually venture out via a multi-domestic strategy; therefore they not only need to conform to each host country’s standards and specifications but also have to strive for a global image as producers of high-quality products. Neglecting to understand a market segment and pricing or governing regulations and distribution channels may undermine an SME’s potential to expand abroad and in some cases, the SME may not able to penetrate certain markets. These findings support Cook (2006) and the Malaysia External Trade Development Corporation Malaysia (MATRADE, 2003) advice that SMEs need to conduct comprehensive external market analysis in order to ensure success in their internationalisation.

Another external barrier facing the Malaysian SMEs is customers’ perceptions towards products of newly industrialised countries and developing countries. Apparently, many products from developing countries, including Malaysia, are not well received in developed nations or other developing countries. Substandard product quality and perceived unethical practices seem to be some of the reasons. However, what is more appalling is the reluctance of several neighbouring-developing countries to accept products from other developing countries. This suggests that country image plays an essential role for SME success in international activities. This is a baffling finding, but accords with other findings regarding uncertainty about the effect of the image components of a place of product origin (Ittersum, Candel, & Meulenberg, 2003).

In short, SMEs face difficulties in overcoming both internal and external problems. These problems seem to be associated with systems and structural failure, and in
terms of the resource-based perspective, these problems reflect a firms’ underdeveloped capability to overcome the setbacks in their business context. This lack of capability includes the absence of fore-sighting activities and capabilities, lack of market research and analysis, lack of the necessary linkages to get access to the right people (know-who) or lack of awareness of the need to access the right people, as well as lack of know-how and a lack of competency in learning how to internationalise.

In summary, the findings are consistent with Morgan’s (1997) suggestion that recognising what motivates and inhibits internationalisation processes is the key to comprehending Malaysian SME internationalisation. Clearly, the results of both the motivators and barriers indicate the importance of the firms’ capability to internationalise, thus supporting the resource-based view (Barney, 1991; Shepherd et al., 2005). The fact that firm capability profoundly relates to networking abilities of the owners or key personnel, not only extends the resource-based theory, but strongly support the relevance of the network perspective (Chetty et al., 2007; Johanson et al., 1988). This augmented perspective on international networking supports Dunning’s OLI–Eclectic paradigm (1977) which emphasises the role of networks as a vehicle to strengthen unique and value-added resources (Dunning, 2000).

Based on the discussion of the internationalisation process, the relationships of the variables can be described in the following propositions:
**P3: Driving forces foster and/or impede SME internationalisation**

P3a: Domestic market motivation criteria and global market motivation criteria trigger SMEs to internationalise.

P3b: Complicated local procedures, too many international requirements, and lack of foreign market knowledge impede SME internationalisation. However, capable SME owner or manager can overcome these challenges by improving the system and structural condition of the firm.

P3c: SME owner and manager capabilities foster SME internationalisation.

5.3.4 Objective 4

*To determine the other influential factors and the key drivers in terms of firm specific and managerial factors that influence the internationalisation process of Malaysian SMEs*

Both Experts’ feedback and the SME owner and managers’ interviews revealed that the competency and capability of the SME owner-manager and the firm specific factors were the key drivers in determining the decision, strategy, process and implementation of SME internationalisation. This study uncovered some pertinent issues and components concerning these two key drivers.

5.3.4.1 Key Personnel Competencies

The study revealed that key personnel of SMEs had a substantial influence in promoting internationalisation. Their competencies, such as broad experience, broad international exposure, distinctive entrepreneurial orientation, good interpersonal skills, competent management capabilities, exceptional personality and attitudes, and strong global and visionary mindsets, were prerequisites in developing the
organisational capabilities for internationalisation. These characteristics of key personnel are consistent with earlier studies on firm internationalisation (among others: Aaby et al., 1989; Ibeh, 2003a; Johnson, 2004; Zou & Stan, 1998).

These characteristics are supplemented by having a “righteous” personality and attitude in business dealings, which include honesty, ethical conduct and high integrity in their business transactions. Taken together, these characteristics enable the SME owners-managers to gain trust and respect, not only from their own employees, but also from business partners and local and foreign associates. This facilitates the process of internationalisation. Moreover, by way of goodwill within the business community, the ‘man-of-principle’ attitude practiced by some Malaysian SMEs brings opportunities for further internationalisation and opens avenues for new opportunities. This supports the view that the trust-based relationships could result in ‘serendipitous encounters’ which can contribute to success in foreign markets (Child & Rodrigues, 2007; Crick et al., 2005).

The 54 SME owners-managers in this study possessed broad international exposure. All have experienced being abroad, by visiting current or prospective customers, attending trade exhibitions and following government-organised business trips. Forty-three percent of the respondents have lived abroad due to their education, which affected their awareness and preparedness for internationalisation, fostered their global mindset, gave them a high level of English language proficiency, and made them highly adaptable, innovative, and analytical in their thinking ability.
The international exposure likely shapes their entrepreneurial orientations. It may suggest they are risk takers, but they also allow more autonomy for the management team to execute relevant internationalisation strategies. As a consequence, their firms are more innovative and proactive towards internationalisation. The autonomy, risk taking, innovativeness and proactive aspects support Lumpkin et al.’s (1996) entrepreneurial orientations, but not insofar as supporting competitive aggressiveness. Malaysian SMEs are not very aggressive when internationalising their firms.

A diverse international exposure and entrepreneurial orientation prepares the Malaysian SME owner-managers in three ways: first, they are proactive entrepreneurs with a strong will and intent to succeed internationally; second, they have a strong entrepreneurial vision with a global mindset; and third, they create and extend local and international network relationships.

These qualitative findings match Fernández-Ortiz and Lombardo’s (2009) finding that there is a significant relationship between top management characteristics i.e. age, education, professional experience, and language knowledge with international activities. The criteria for entrepreneurial managers also match Rodriguez’s (2007) larger scale findings (i.e. the United Kingdom, France, Finland, Australia and Mexico), as shown below:

“Managers from born global companies are driven by pull factors, exporting mainly services to growing overseas markets. These managers are more educated than the average manager. They speak, on average, two languages, and English is spoken by all. Nearly half of them have lived overseas. This group of managers travels constantly, averaging over 10 international trips
annually to visit current or prospective customers and to attend trade exhibitions” (Rodriguez, 2007, p.314).

Notably, many Malaysian SMEs maintain truly Asian values, such as honesty, loyalty, humanity, humility, contentment, collectivism, preservation of relationships, respect for elders, and accept that religious orientations affect their managerial practices. Interestingly, these characteristics are not as prevalent in low-context cultures countries such as Europe (Greve, Nielsen, & Ruigrok, 2009), but are expected in high-context cultures such as Malaysia, China, Korea, Japan and other Asian countries.

Having the necessary competencies, righteous traits, diverse international exposure, being highly entrepreneurial and integrating Asian values in their business conduct characterises the Malaysian SME owner-managers that internationalise their firms. Consequently, finding these exceptional qualities extends the International Entrepreneurship perspective (Jones et al., 2004a; Zahra et al., 2002), which emphasises the importance of having the right mindset. The findings also support Obrecht’s (2004) extension of the Resource-based perspective that views entrepreneurial characteristics as an important resource to systematically approach internationalisation. The importance of foreign market knowledge fits the learning process of the Uppsala Model (Johanson et al., 1977, 2003b), whereas, the persistent concern over relationships extends the social network theory perspective (Ellis, 2000). On the whole, the SME owners-managers characteristics are grounded to “ownership-specific” (O) aspects of the Dunning Eclectic paradigm (Dunning, 1977, 1988), which contends that firm-specific factors and managerial capabilities are the superior variables in internationalisation.
5.3.4.2 Firm Competencies

Apart from the key personnel competencies and traits, Malaysian SME internationalisation is supported by firm specific factors of resources and firm competencies. Those SMEs that gain success internationally are equipped with competent staff, strong financial support, abundant raw materials, advanced equipment, convenient R&D, and a strategic firm location. These factors enable SMEs to build firm competencies, in terms of product viability, value-adding, competitive advantages, advanced technology and international compliance. The resources and competencies empower the SMEs to set plans and strategies for internationalisation, and influence their pattern, speed, market selection and foreign entry modes.

The importance of firm competencies and resources is recognised in the Resource-based perspective that focuses on internal capabilities for influencing internationalisation (Barney, 1991; Prahalad et al., 1990). This agrees with Grant’s (1991) proposition that successful internationalisation is founded upon inimitable, firm-specific, distinctive competitive advantage. Because of these competencies, 50% of the participating SMEs experienced rapid and born global patterns, which supports Coviello et al. (1999) and Gassmann and Keupp (2007) argument that organisational competitive advantages provide the basis for early internationalisation.

Since all 54 participating firms are located in various small to medium industrial zones (SMI), they have a basic-facilities advantage. Malaysian SMEs are dispersed in 20 different SMI zones around the country, and support for their development is
highly dependent on each of the 13 states. Although the SMEs receive infrastructure support from the government, not all supporting institutions are able to identify and meet the actual needs of SMEs. This is indicative of either missing or inadequate linkages to coordinate between the supporting agencies and SMEs, SMEs with SMEs, SMEs with large firms, and among the agencies themselves (Mohar-Asri, 2002). This lack of coordination has also been described in Vietnam (Nguyen, Alam, Prajogo, & Duong, 2008a) also, in part, because of a lack of managerial capability within agencies, which suggests it is a problem for developing countries.

Theoretically, the emphasis on firm competencies and competitive advantages in internationalisation fits Porter (1990) and Kogut’s (1985) views on firm specific resources and the Resource-based perspective. Infrastructure support is the foundation of the “location-specific advantage” (L) aspect of the Eclectic paradigm (Dunning, 1977, 1988), representing potential gains SMEs can get within a specific industrial location. Close-knit linkages among important industry players is a significant variable and along with firm competencies and locational advantage supports Dunning’s (1977; 1988) OLI–Eclectic paradigm.

The relationships of the variables for the internationalisation process are described in the following propositions:

**P4: Organisational key drivers influence internationalisation**

P4a: Key personnel with considerable management capabilities, strong social and/or business networks, broad experience and exposure, desirable personality and attitudes, broad market knowledge, and reasonable
international orientations are more likely to commit the firm to internationalisation.

P4b: SME companies with access to strong and reliable resources, having a global strategic corporate view, possessing competitive advantages and value-added products are more likely to commit to internationalisation.

5.3.5 Objective 5

To develop an internationalisation process model for SMEs operating within the context of a highly supportive environment for SMEs development.

The final objective is to develop an internationalisation process model. The current study is guided by a conceptual framework that integrates the concepts of five major internationalisation perspectives including, the Incremental, Rapid, Network, Resource-based and International Entrepreneurship perspectives. The study focused on four internationalisation issues i.e. Awareness, Process, Driving Forces, and Influential Key Drivers.

5.3.5.1 The Internationalisation Process Model for the Malaysian SMEs

Based on the quantitative and qualitative findings, an internationalisation process model for SMEs operating in a highly supportive SME development environment is presented in Figure 5.1.
**Figure 5.1: Emergent Integrated Model of the Internationalisation of SMEs**

**DOMESTIC MARKET AND/OR INTERNAL CONDITIONS**

**INTERNATIONALISATION AWARENESS**

**D1: Awareness within:**
- Domestic
- International

**D2: Creation of Awareness via Networks with:**
- Institutions (Government-related Bodies; Ministries; SMI Agencies; Foreign-country Bodies; NGOs)
- Other Players (Other business associates)
- Personal Relations
- Other sources (Internet, Market Research, Readings, Learning and Observations)

**DRIVING FORCES**

**D1: Motivating Criteria**
- Domestic Market
- Global Market

**D2: Inhibiting Criteria**
- Local Procedures
- International Requirements

**INFLUENTIAL KEY DRIVERS**

**D1: Key Personnel Competencies**
- Experience & Exposure
- Personality & Attitudes
- Social Capital Capabilities
- Managerial Capabilities
- International Orientations

**D2: Firm Competencies**
- Tangible & Intangible Resources
- Value-added & Competitive Advantages
- Corporate View

**D3: Entrepreneurial Orientations**
- Proactiveness
- Autonomy
- Risk taking
- Innovativeness
- Competitive Aggressiveness

**INTERNATIONALISATION PROCESS**

**D1: Internationalisation Preconditions (founder and firm capabilities)**
- Ability to identify niche market (Niche Products - Tech-Based or Products for Global Markets)
- Founder/Key Personnel Strategic Networking Abilities
- Abilities to meet Home and Host Country Procedures and Requirements, and to meet International Standards
- Key personnel possess Information and market knowledge
- Ability to gather and allocate resources

**D2: Entry Mode and Market Dimension**
- Extend & Entry Mode
  - Slow to Fast Paces
  - Low to High Commitment Modes
- Scope:
  - Small to large number of markets
  - Geographically/psychically Near and/or Faraway Markets

**D3: Internationalisation Process Patterns**
- Traditional Pattern
- Rapid Pattern
- Born Global Pattern
  (Influential Variables: Process and Processual Speed; Mode of Entry, Market, Triggering Factors, Industry)

**GLOBAL MARKET AND/OR EXTERNAL CONDITIONS**

Sources: Developed from the interpretation of the research findings

Note: D – Dimension
This provides a new perspective in understanding the internationalisation process of SMEs. The four focused issues are interlinked, indicating that interrelated micro and macro conditions affect the SMEs decisions to internationalise. The model clearly supports the existence of networking as the most influential factor in the internationalisation process of SMEs in Malaysia. The ability to access relevant networks is the fundamental value to SMEs, as the avenue for acquiring international opportunities, tacit knowledge and foreseeing market behaviours that contribute to the success of internationalisation process.

5.3.5.2 Theoretical Contributions

Awareness was the precondition for internationalisation. This occurs through the SME owners-managers capability to establish necessary linkages, thus highlighting the importance of “ownership-specific” (O) advantage as described in the Dunning-OLI paradigm. The networking relationship speeds up the process and extends the scope of foreign market penetration, which is indicative of “ownership-specific” (O) and “internalising advantage” (I) elements. Ownership is emphasised as an important variable to foster internationalisation. Together, firm competencies developed through SME owners-managers, location, linkage supports “ownership-specific” (O), “location-specific” (L) and “internalising advantage” (I) elements, are described in the OLI paradigm (Dunning, 1977, 1988, 2000).

Above all, ownership strengthens locational and internalisation elements because capable SME owner-managers derive advantages from location and internalisation. Ownership strengthens the owner-manager capability in establishing necessary linkages, which could result in the creation of ‘VIRO-based’ resources, i.e. V-
valuable, I-inimitable, R-rare, and O-organise resources (Alvarez & Busenitz, 2001; Barney, Wright, J., & Ketchen, 2001). According to Barney et. al., (2001) O-organise resources relates to the firm's ability to organise resources in the most efficient and effective manner to create Valuable, Inimitable and Rare resources. This evidence adds to the broader theory of internationalisation and supports positioning this study’s theoretical contribution within the Dunning’s OLI-Eclectic paradigm.

5.4 Managerial and Policy Implications

The findings and the emergent model of SME internationalisation have practical managerial and policy implications. The following sections describe these.

5.4.1 Managerial Implications for SMEs

A number of managerial implications are derived from the findings of the study into SME firms. The first implication concerns the international awareness of SME owner-managers. To increase international awareness SMEs need to utilise trade shows and recognise their function in disseminating information on the internationalisation process. According to Evers et al., (2008) trade shows can function as “neutral territory, accelerators of internationalisation, critical knowledge hubs and network spaces”. They can be effective networking mechanisms for SMEs to gain opportunities and knowledge, identify suppliers and buyers, and speed up and enhance firm internationalisation. Therefore, SME owners and or key managers, and policy makers should see trade shows/seminars/exhibitions not only as a selling opportunity but also as an entry-point into long-term networks for the benefit of their specific firms and SME development in general.
The second implication of the study concerns SME entrepreneurial competency. The owner-managers need to nurture entrepreneurial behaviour through their mindsets, practices, and decision-making activities. They should be more proactive in searching for international markets opportunities, innovative in engaging in and supporting new ideas, and willing to take risks to try out new and uncertain products, services, and or markets. They also need to be more aggressive, but in a constructive manner, in competing with local and global players.

The third implication concerns the role of networking. The SME owners-managers must create, establish and or strengthen/sustain their networking efforts, especially with relevant government agencies and/or institutions. According to Luo et al. (2008) networking with higher rank officials gains SMEs preferential access to valuable market information, better chance for government monetary and non-monetary incentives, and help reduce bureaucratic delays. The SMEs also have to realise how networking works for gaining both financial and non-financial support, as they are important measures for internationalisation success (Walker et al., 2004).

The fourth implication concerns standard compliances. Malaysian SMEs intending to penetrate foreign markets should obtain international approvals from the recognised international body at inception. Although the Standards and Industrial Research Institute of Malaysia’s (SIRIM) qualifications may be internationally recognized, they may not be ‘relevant’ to all countries. The SMEs must make their own efforts to obtain international safety, quality or other required standards to gain entry in certain countries. Pertaining to this point, the company should be doing this
very early in the process and the Malaysian government should assist the SMEs by facilitating the procedure of obtaining international approvals.

The fifth implication concerns the organisations preparedness. The SMEs should develop managerial capabilities and firm competencies so that they are ready to compete with other global players in the long run. Apart from having diverse technical, business, interpersonal and communication skills, the SME management team should always be willing to work hard, be alert to any environmental changes, able to foresee foreign market behaviours, make quick and accurate decisions, and most importantly, they should have a global mindset and entrepreneurial orientation. Owners and founders should give autonomy to other managers to allow them to be more proactive and innovative. Internal resources and firm competencies are enhanced by coordinating and integrating with other SMEs, MNCs, and their suppliers and/or subsidiaries. This could be practiced at the regional level and with farther regions, and in turn, would be a source of competitive advantage that ease global penetration for the SMEs (Prashantham & McNaughton, 2006).

Overall, the Malaysian SMEs should tap the full potential of available measures to close the ‘psychic distance’ gaps between the home and host countries. Several possible ways are to acquire skills and expertise through training and/or education, especially in how to manage international business, and to encourage wider networking.
5.4.2 Policy Implications

The present study on SME internationalisation also has implications for government policy. One prominent issue is the role played by many agencies related to SME development in Malaysia. A number of respondents were concerned at the lack of coordination among the agencies in regards to policy. This promotes confusion among the SMEs regarding who and where to go to for certain required services. Which supporting bodies should be approached? Which policies should they follow? What supports are they eligible to receive?

A practical solution would be for the government to establish a central body to monitor and facilitate policy and the information dispersion. This facilitator and control unit can be formed or created by having representation from all the existing supporting agencies (i.e. SMIDEC, Bank Negara, National SME Development Council or MATRADE), or by assigning a new independent body to carry out the task (i.e. the Chamber of Commerce). A more transparent collaboration and monitoring among all the important bodies for SMEs international expansion would bring benefits to the SMEs and social and economic development in Malaysia.

Another policy issue that raises concern is the abolishment of the Ministry of Entrepreneurship Cooperative Development (MECD) in April this year (Bernama, 2009b). As some of government support services are operationalised under this ministry, its closure can result in firms facing more hurdles when seeking assistance regarding information, facilities, financial support, product commercialisation and Research and Development. As to date, no specific unit/division is assigned to replace the MECD function. On the other hand, SME internationalisation is likely in
a better position, since the principal agency for SMEs, the Small and Medium Industries Development Corporation (SMIDEC) is being placed under the Ministry of International Trade and Industry (MITI). It is hoped that under MITI, the SMIDEC could be more effective in assisting Malaysian SMEs into the global arena.

Another matter revealed in the current study was the concern over corrupt practices. Many of the respondents felt strongly about this issue as it not only affects the image and reputation of business as a whole, it also affects Malaysia socially and the country’s political reputation. The 2009 Global Corruption Barometer (GCB) conducted by Transparency International reported that, “Malaysians generally consider political parties and civil service to be the most corrupt groups...” (Arukesamy, 2009) http://www.thesundaily.com/article.

This evidence suggests that it is time Malaysia’s officials and leaders realised the public disapproval of such practices, and that corruption impairs the country’s reputation. Change to more ethical and constructive attitudes are needed as corruption and competitiveness cannot co-exist. Similarly, cronyism and nepotistic preferences among leaders must be discontinued if Malaysia’s economic and societal growth is to be enhanced. Malaysia needs more transparent policies to not only encourage SME expansion, but to realise the vision of developed nation in 2020.
5.5 Limitations and Suggestions for Future Research

According to Marshal and Rossman (1999) any study has limitations. Although this study has made a significant contribution to theory, methodology, practice and policy on the internationalisation process of SMEs, its findings and implications inevitably have limitations.

The unit of analysis was restricted to manufacturing industries within the Small to Medium Industrial sites in the Central Region (i.e. Selangor and Kuala Lumpur Federal Territory) of Malaysia. Internationalisation and factors affecting the process may be experienced differently in other quarters, such as the services sector. Therefore, future research to address specific characteristics of other industry sectors and contexts is warranted.

This study uses a qualitative approach and all identified factors affecting SME internationalisation are based on interviews with SME owners or senior managers from the manufacturing sector, or experts on SME internationalisation. Future studies could explore the views of MNCs to understand how they help mediate SME internationalisation and also explore the agencies/institutions that are involved in providing the necessary support. Such broader perspectives can provide a more comprehensive picture of SME internationalisation.

One important direction for future research is to extend this study to other SME sectors and other regions. Future research could apply this methodology to a broad cross-section of the SME sector, including service industries, traditional agriculture and/or knowledge-based industries. It may be that different SME sectors experience

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different scopes, extents, dimensions and patterns of internationalisation. Another pertinent direction is to extend the Delphi Technique to a different panel of experts. Czinkota et al., (2005) strongly suggest researchers in the international business area utilise experts’ knowledge, experience and wisdom in obtaining feedback on international trade and global business.

A final option is to conduct large sample study, using a quantitative approach that can apply rigorous statistical tests, such as is found with the statistical package for social sciences (SPSS), or structural equation modelling (SEM) to estimate the relationships among the identified dimensions and items (as depicted in Figure 5.1). Further research could examine the relationships of these dimensions and items and determine any causal sequences. Similarly the propositions formulated in this study could be investigated to further refine internationalisation theory.

In conclusion, research on SME internationalisation in Malaysia is still in the infancy stage and there are broad opportunities for further research. This study is an aperture for other researchers interested in delving into the topic further, whether in Malaysia or in other contexts.

5.6 Summary of the Study

A summary of the study is outlined in Table 5.1. This table highlights the critical theoretical gaps identified from a review of the extant literature. It also demonstrates that the factors affecting internationalisation awareness and opportunities, the dimensions and patterns of the internationalisation process, the driving forces that
foster and hinder the internationalisation process and the key drivers of SME internationalisation is best considered from an integrated theoretical perspective. The multi-industry and multi case approach has provided richer insights into the issues surrounding internationalisation through a thematic approach utilising open, axial, and selective coding and basic statistical analysis and reporting of percentages to support quotations from the interviews.

The table finally highlights the research contributions of the study. The specific contributions included:

1. a refined list of how three major channels of information (i.e institutions, other business players and personal relations) assisted in seizing international awareness and opportunities;
2. a refined list of characteristics of the Traditional, Rapid and Born-global patterns of internationalisation;
3. an identification of preconditions for internationalisation process;
4. a refined list of the pushing and pulling factors that motivate internationalisation, and the hindering factors for internationalisation;
5. a refined list of the key personnel and firm-specific factors that influence SME Internationalisation;
6. a generation of a list of propositions for each research objective based on the observed relationships of the findings;
7. an extension to the body of knowledge on the SME internationalisation; and
8. a development of a comprehensive SME internationalisation process model.
## Table 5.1: Summary of the Study’s Theoretical Gaps, Research Objectives, Data Analysis Used, and Research Contributions

<table>
<thead>
<tr>
<th>Critical Theoretical Gaps</th>
<th>Research Objectives</th>
<th>Data Analysis Used</th>
<th>Research Contributions</th>
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<tbody>
<tr>
<td>1. Need to empirically refine how SMEs identify foreign market information and how the CEOs/key managers are aware of the international opportunities (Ellis, 2000).</td>
<td>1. To identify what instigates internationalisation awareness among SMEs in the manufacturing sector.</td>
<td><em>Qualitative Analysis:</em> Used thematic approach by utilising open, axial, and selective coding to identify themes and emergent themes. <em>Quantitative Analysis:</em> Utilised intelligent coding based on selective coding for the purpose of determining the most influential factor. <em>Reporting Approach:</em> Reported each theme and sub-themes using percentage and supporting quotations. Then iteratively matched research findings with the literature.</td>
<td>- Refines the means of internationalisation awareness and information on foreign market. - Identifies that Internationalisation awareness is created through the networking of the SME owners-managers. - Identifies three major channels for obtaining information; institutions, other business players and personal relations. - Generates a refined list of how these channels assist in seizing international opportunities. - Generates propositions based on the observed relationships.</td>
</tr>
<tr>
<td>2. Lack of adequate empirical evidence on dimensions and patterns of internationalisation that best fit to explain the internationalisation process of SMEs in Malaysia.</td>
<td>2. To describe the internationalisation process by examining the dimensions, patterns and scopes</td>
<td><em>Qualitative Analysis:</em> Used thematic approach by utilising open, axial, and selective coding to identify themes and emergent themes. <em>Quantitative Analysis:</em> Utilised intelligent coding based on selective coding for the purpose of determining the most influential factor. <em>Reporting Approach:</em> Reported each theme and sub-themes using percentage and supporting quotations. Then iteratively matched research findings with the literature.</td>
<td>- Successfully identifies evidence on internationalisation dimensions i.e. extent, speed and scope, that in turn explains the patterns of internationalisation. - Determines the Traditional, Rapid and Born-global as patterns for Malaysian SME Internationalisation. - Generates a list of characteristics of each internationalisation pattern. - Determines the preconditions for internationalisation process. - Generates propositions based on the observed relationships.</td>
</tr>
<tr>
<td>3. Need to empirically examine the driving forces and determine the variables that affect the internationalisation process (Zucchella et al., 2007)</td>
<td>3. To identify the driving forces that foster and hinder the internationalisation process of the Malaysian SMEs</td>
<td><em>Qualitative Analysis:</em> Used thematic approach by utilising open, axial, and selective coding to identify themes and emergent themes. <em>Quantitative Analysis:</em> Utilised intelligent coding based on selective coding for the purpose of determining the most influential factor. <em>Reporting Approach:</em> Reported each theme and sub-themes using percentage and supporting quotations. Then iteratively matched research findings with the literature.</td>
<td>- Identifies driving forces that foster and/or hinder the internationalisation process of the Malaysian SMEs. - Generates a refined list of the pushing and pulling factors that motivate internationalisation. - Generates a refined list of the hindering factors for internationalisation. - Generates propositions based on the observed relationships.</td>
</tr>
<tr>
<td>4. Previous studies have identified the influential factors such as firm factors (Bell et al., 2007), key personnel factors (Oviatt et al., 2004), and external and internal factors (Lumpkin et al., 2005), however the findings are incomprehensive</td>
<td>4. To determine the other influential factors and the key drivers in terms of firm specific and managerial factors that influence the internationalisation process of the Malaysian SMEs</td>
<td><em>Qualitative Analysis:</em> Used thematic approach by utilising open, axial, and selective coding to identify themes and emergent themes. <em>Quantitative Analysis:</em> Utilised intelligent coding based on selective coding for the purpose of determining the most influential factor. <em>Reporting Approach:</em> Reported each theme and sub-themes using percentage and supporting quotations. Then iteratively matched research findings with the literature.</td>
<td>- Successfully identifies the most influential factors affecting the Malaysian SME Internationalisation process. - Generates a refined list of the key personnel factors that affect SME Internationalisation. - Generates a refined list of the firm specific factors that influence SME Internationalisation. - Generates propositions based on the observed relationships.</td>
</tr>
<tr>
<td>5. Researchers have argued that the internationalisation process crosses diverse theories (Morgan et al., 1997; Welch et al., 1988), yet it is inconclusive (Etemad, 2004b), so an integrated approach is recommended (Jones et al., 2005).</td>
<td>5. To develop an internationalisation process model for SMEs operating within the context of highly supportive environment for SMEs development.</td>
<td><em>Integrative Approach:</em> Integrated the findings of the quantitative and qualitative analyses that emerged from the four focused issues. *Illustrated the distinguished themes and variables in an integrated model of the internationalisation of Malaysian SMEs in the manufacturing sector.</td>
<td>- Identifies themes and variables that emerged from the four focused issues which are interlinked. - Develops an integrated internationalisation process model for SMEs operating within the context of highly supportive environment for SMEs development.</td>
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</table>
5.7 Conclusions

This study enriches the SME internationalisation literature by contributing to a deeper understanding of the internationalisation process of SMEs in Malaysia. The study applies five internationalisation theories, the Incremental, Rapid, Network, Resource-based and International Entrepreneurship models as a platform to explore the internationalisation process of Malaysian SMEs in manufacturing sector. The outcome is an integrated model of the SME Internationalisation process. This model explicitly distinguishes the dimensions of internationalisation, including the entry modes, market selection, patterns and triggering factors; items that raise internationalisation awareness, such as information, knowledge and networking; internal and external forces that motivate and hinder internationalisation; and influential key drivers including firm specific factors and main actors’ distinguished characteristics.

The major dimension that emerges as the focal point affecting the internationalisation process of Malaysian manufacturing SMEs is networking. The main forces that determine the success of SME internationalisation process is the SME owners-key managers’ own initiative, motivation and entrepreneurial mindset. The most important drivers that give impact to the internationalisation process are the SME owners or key managers’ capabilities and the firm-specific competitive advantages.

Internationalisation of Malaysian SMEs allows firms to grow by expanding their markets. To do this they need to continuously develop entrepreneurial and managerial capabilities so they can operate in the ever changing globalised business environment,
and they need effectively co-ordinated support from government to be able to do this. Improving and strengthening the capability of Malaysian SMEs will ultimately position them as on of the catalyst for achieving the vision of Malaysia becoming economically developed country by the year 2020.
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APPENDICES

APPENDIX 1: Distribution of Manufacturing Companies by Location for 2003

[Map showing distribution of manufacturing companies by location.]

Source: Department of Statistic, Census 2000. (As cited in, SMIDEC, 2004, Chapter 2, p. 13)
## APPENDIX 2A: PHASE I: PILOT STUDY

<table>
<thead>
<tr>
<th>RESEARCHER REFERENCE</th>
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</thead>
<tbody>
<tr>
<td>Interview No:</td>
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<tr>
<td>Date of Interview:</td>
</tr>
<tr>
<td>Time:</td>
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<tr>
<td>Institution:</td>
</tr>
<tr>
<td>Location:</td>
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<td>Position:</td>
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<td>Email Address:</td>
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<td>Phone No:</td>
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<td>Language Used:</td>
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</table>

## OPENING PHASE

Introduce the researcher and explain the purpose of the telephone interview as part of first phase of data collection for a doctoral dissertation.

**Purpose:** 1. This study aims to investigate the internationalisation process of SMEs in Malaysia and to determine the most influential factors affecting internationalisation.

**Process:** 1. Establish list of appropriate contacts.
   2. Contact initially by telephone or mail to invite participation.
   3. Follow up letter of confidentiality and agreement to be signed by participants.

**Interview Questions:** This is a semi-structured format. This interview is expected to be completed within 30 minutes.
**SEMI-STRUCTURED INTERVIEW QUESTIONS FOR THE EXPERTS**

<table>
<thead>
<tr>
<th>Aspects</th>
<th>Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Reason</strong></td>
<td>Why do small and medium-sized firms decide to go international?</td>
</tr>
<tr>
<td><strong>Motivational Factor</strong></td>
<td>What kind of motivational factors that trigger firms to go international?</td>
</tr>
<tr>
<td></td>
<td>Which is the most important factor?</td>
</tr>
<tr>
<td><strong>Firm Factor</strong></td>
<td>What firm specific factors (strengths) initiate a firm going international?</td>
</tr>
<tr>
<td></td>
<td>Which is the most important factor?</td>
</tr>
<tr>
<td><strong>Industrial Factor</strong></td>
<td>What industrial factors influence firms’ internationalisation?</td>
</tr>
<tr>
<td><strong>External Factor</strong></td>
<td>What external factors do you believe most influence a firm to go international?</td>
</tr>
<tr>
<td><strong>Relationship Factor</strong></td>
<td>What relationships with others (e.g. firms, supporting agencies) support a firm in going international?</td>
</tr>
<tr>
<td><strong>Barriers and challenges</strong></td>
<td>What are the main internal barriers for firms going international?</td>
</tr>
<tr>
<td></td>
<td>What are the main external barriers for firms going international?</td>
</tr>
<tr>
<td></td>
<td>Are there any other challenges you can think of that firms need to confront when going international?</td>
</tr>
<tr>
<td><strong>Other factors</strong></td>
<td>Are there other factors we have not covered that prompt a firm into going international?</td>
</tr>
<tr>
<td><strong>Expectation</strong></td>
<td>In a general sense, what do you think is the main advantage of going international?</td>
</tr>
<tr>
<td><strong>Operation</strong></td>
<td>Where do small and medium-sized firms operate internationally?</td>
</tr>
<tr>
<td></td>
<td>How does this affect their operations?</td>
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</tbody>
</table>
APPENDIX 2B: PHASE II: IN-DEPTH INTERVIEW

IN-DEPTH INTERVIEW: SEMI-STRUCTURED INTERVIEW QUESTIONS

RESEARCHER: ZIZAH CHE SENIK

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Research Topic: The Internationalization Process of Small to Medium Sized Firms in Malaysia

Research Purpose: To gain a better understanding of the process of internationalization within the Malaysian small to medium sized firms.

Unit of Analysis: Malaysian firms which have 10 to 300 employees and currently engaged in international markets.

Methodology: Face to face interview with the owner/founder or top management executive of the firm

INTERVIEW GUIDE

The following questions will be asked during the interview.

A: Background

- Could you tell me briefly about your firm?

B. The motives/reasons for the firm to internationalize

- Could you tell me the reasons why you decide to involve in international activities?

C. Awareness of The International Opportunities

- How did you learn of the international opportunities? And to what extent do these sources influence your firm’s decision to go international?
D. The outward internationalization process of the firm

- Could you tell me the process of your firm’s internationalization? (For example when, where, what, who, and how that involve your firm’s decision to internationalize.
- Could you describe the stages of your firm’s internationalization?

E. Firm Factor

- What do you consider to be the strengths of your firm that initiate it to go international?
- How about the barriers or difficulties that your company has to face with in going international?
- Who (within or outside the firm) is/are the most influential to bring the firm into international markets?

F. Environmental Factors

- Could you tell me about the environmental or external factors that influence the firm to go international?

G. Top Manager’s Characteristics

- In your opinion, what kind of owner or top management characteristics that ease the firm’s decision to go international?

H. Respondent Profile

Name:
Position:
Year of service with this firm:
Length of working experience:
Family background:
Education:
International exposure:
Personal goal and vision:
Gender:
Age:

Thank you for your participation.
APPENDIX 3: An Example of Transcript

SSS (M) SDN BHD: RUBBER SECTOR

Introduction
SSS Sdn Bhd was established in 1997 when the main founder Dato’ Lamin and his partner, an Accountant via Consultant acquired an existing latex company, Powerfoam Bedding Sdn Bhd which was having severe financial difficulties. They took over the whole corporation and started supplying rubber products to the government. This company has 110 employees with annual sales of USD7–13 million. The company is categorized under the rubber sector and its core business is producing rubber foam mattresses, pillows and other related products. The company is introducing the national brand known as NATURATEX. It started going international for the last 2 years (2003), which began with Australia, European countries such as Netherlands, Germany, Switzerland, France and South Africa. The company exports 70 percent of its products.

This interview with the Executive Chairman was held at a restaurant on 27 Dec 2005.

Conversation
Q: About the company background.
A: Roughly this company started in 1997, given advertised job in Desaru Johore. We want to develop some tourist centers, and provide in-house supply. So I went to see the owner of Powerfoam Bedding Sdn Bhd (Established in 1986 by Mr Yap Keng Lib – MATRADE Directory), they have been producing latex products under the brand of DUNLOPILO. Somehow the company has financial difficulties, so together with my friend who also an Accountant and Consultant I took over the corporation, the company, staff and everything. Staff at that moment has got 110 employees. So that’s how Nutralatex exist, Nutralatex is actually the brand.

At first we supply to government, SSS is franchise, DUNLOPILO is also franchise. So that’s how we started.

The last 2 years we started exporting all over the world. I found out that Europe, (such as Netherlands, Germany, Switzerland, France), South Africa and Australia are in demand of latex foam mattresses, so after having discussion with my partner, and we see the market, but somehow the market is very challenging. That’s why we decided to go.

Q: How did you learn about the opportunities in Europe, South Africa and Australia?
A: That one is from my own observations. I have been checking the price…I have come out with all these 3 countries, the profit margin is 130% compared with our local market. And those people are importing their latex from Malaysia, from
China…China has but synthetic rubber, so they found out that my price is very competitive. So I stopped supplying much to local, last time 70% local, 30% export, now I reverse, 70% export, and 30% local.

Our biggest local agent is Harvey Norman, it is Australian brand, the biggest furniture shop in the region, in Asia Pacific, so Harvey Norman became our agent and through them also we found our markets in Australia. MATRADE also helps, it gives a 2 million grant about three months ago …for us to develop our national brand, to start in Europe, South Africa and Australia.

Q: (t:5.46) Are there any specific reasons why you choose these regions?
A: In Europe, the demand for latex pillows and mattresses is very encouraging. And they don’t have latex, only synthetic latex. The country does not have the producers in rubber. And we have developed anti-bacteria materials,…we also developed…the first in the world…aromatic bed, because we have good latex in Malaysia. We also get the technician from Germany…in orthopedics. So with this technician we penetrate into Europe, to Europe we just penetrated recently, only 6 months ago.

Q: (t:6.54) Between Europe, South Africa and Australia, which country did you go first?
A: Australia. Because the demand, we are familiar with Australia, so we started with Australia. And one of our main agenda for global is Australia, and our marketing agent is also from Australia, so they know Australia well. Australian company has been buying our products for the last 2 years. We have been exporting our products to Australia via agents for the past 2 years, but for the last 4 months we export ourselves to Melbourne. We set up a warehouse and office in Melbourne. Based on that we appoint agents throughout Australia, so far we have 8 agents in Australia. The market is encouraging and the margin is very good.

Q: Who made the decision to go international?
A: Myself…after observing, hearing, reading and encouragement from the government, I started exporting. The company has started exporting already when I acquired the firm, so I am taking advantages of the situation, with the support from the government, and that 2 million grant assistance from MATRADE, I started exporting excessively for the past 2 years. We realize the potential of bigger market. We take the branding which we develop from the grant, that’s become the national branding.

Q: (t:9.17) What trigger you to go international?
A: Once we took over the company, and observing the market, they [the buyers] take priority to latex, latex premium is 40% higher than synthetic, so I realize the possibility there, so I assigned officers to research through internet and all sort of thing. So in Australia alone, within 3 months we sent 4 freights per month. Before that, not that much, so we increase the number of agents in Australia.
Q: How did you discover those agents?
A: Through local medium, we do furniture exhibition in Melbourne. Sometimes we advertised, from there we selected the appropriate agents. We also joined exhibition here in Malaysia Manufacturing Exhibition, so we gained buyers from South Africa. In Europe we also got the agents during international exhibition. USA also interested but we are holding back US, we want to concentrate in those 3 markets first.

We sent one freight to Europe, to Netherlands, last 3 months. There are a lot of responses from Europe. We expect Europe to be our main market that’s why we appoint one local agent in Netherlands, who used to work under our factory for 3 years, so we send him to be in charge of the market there. We expect to send 40% of our products to be marketed in Europe.

Q: (t:12 40) How about your raw material, where do you get them?
A: About 93% of the raw material we got it from local, from the rubber estates, in Tangkak, Johore and also from MARDEC.

Q: Besides the sources of international awareness that you mentioned earlier, what are other sources that make you aware of the opportunities?
A: From the internet…that’s helping us to identify the agents. But, marketwise, we’ve already known…rubber…in Europe for the past 5 years; almost 300% has increased in demand. The cause is…historically, rubber is thought as dirty, smelly commodity, but people in Europe have opened up their minds. And Malaysia has the latex, so we have some sort of educational program with them. We attended a 3 days international exhibition in Europe, after that we correspondence through internet.

Q: Customers in Australia and Europe are very quality-safety conscious, so how did you convince them of your products?
A: (t:16.00) Oh, they come here…it’s either way, they come here to see the products, or we go to their countries and show them our samples. And we got the international products recognition, from Germany, our laboratory research standard is above their standard. And with SIRIM also, our products have achieved, in fact above the standard set by SIRIM.

And we offer cheaper price for them…for the first 2 months our strategy is to go for lower price, then we revise the price. If they compare the price, ours is still better. In fact, the supply is not enough to Australia, particularly, the demand is higher.

From there, we enter South Africa, there are similarities…social taste, the structure…when the know Australia’s started buying our products, they’re also buying from us.
Q: While going international, what are the problems that you have faced?
A: Actually, there’s no problem at all… the only problem is to meet the demand. Unless… our own production problem… the issue now is… upgrading the machine. When we took over the company 4 years ago, the machinery is still old, so now we are in the process of upgrading the machines. We almost upgrading 50% of the machine, that’s why we were quite late to enter other markets… we were aware of the markets for quite sometimes, but couldn’t pursue further due to the old machines.

We also having problem with workers… mainly we import workers from Nepal (60%), and Pakistan (10%), the locals (30%) handle the administrative work. Previously, we had 60% local and 40% Indonesian, but so many problems… social problems, that’s we switch to hiring workers from Nepal and Bangladesh. Our factory is in Sungai Siput, Perak (Perak is a state, located in the Northern part of Malaysia). Based on the capacity 5 years ago, we are the biggest integrated factory for latex in the Asia region. But for the last 2 years, another company took over, (compete us), that’s why we upgrading the factory, because we don’t want to loose our customers, our contract to government… so we upgrade the machines, so that we could produce more and better quality.

It is not the matter of fighting, but maintaining our name. So far there are 3 companies in Malaysia, competing with us which are Aerofoam, Getta… this is the brand, and the plant is in Kajang and Naturatex.

(This part he talked on the reason for hiring foreign workers. He used to have Indonesians and locals, but he terminated the Indonesian workers after the racism fight in Ambun, because it also affected his workers. As for the locals, they have attitude problems, not too keen to work, attendance problem, etc. That made him switch to Nepal and Pakistan workers).

Q: When you go overseas do you find any specific problems?
A: The only problem, that happening for the last few years and to everybody… problem at the port… to clear the custom. It is not really a big problem, normal problem… you have to go through some procedures… but manageable, we can handle. But you have to see at Malaysia too, Malaysia is even worst, with the corruption [at the port].

Q: What are the strengths of your firm that ease you to go international?
A: Naturally we are the latex producer. We have developed new products and our products are accepted by international standard. And we have varieties of product… product varieties, such as aroma, anti bacteria, support the backbone. That kind of thing… our main strength is our products.

Management wise… when we took over, my partner and I become the executive chairman, but we maintain the old partner [Powerfoam Bedding], give him part
of the share, his son is still with us. We have some agreement with them; we are very strong in our management side. We leave the production lines to that old partner [The Singaporean Chinese].

Technology…one thing, we’ve been upgrading our machines, so we’re still the main player in latex in Malaysia. We have this good image and reputation.

Q: (t:26.53) Are there any other factors that affect the decision to go international?
A: The natural demand and the profit margin, before that our margin was 30-40%, now we rise up to 90%. We expect to go higher, the lower the local market, the higher the export market…so we’ll get higher margin. We are putting 120% in 2 years time. We are exporting more…for the local, we are still maintaining the old partner’s customers, other than that we cancel the supply. We still keep Harvey Norman, because it the biggest in the region, I stopped supplying to government because the margin is too small. Yet I have better capacity, so I discontinued the contract…that’s my reason to the government.

Q: (t:29.23) Could you share with me your sales turnover today?
A: When I first took over, it was 4 years ago; they said the turnover was over 5 million. But now about 18 over million…within 4 years. With the new prospect in Europe, we expect to go over 25 million in 2 years time.

Q: (t:30.28) What are the top management characteristics that you have that give positive input to the firm’s internationalisation?
A: I think to start with…see positively on things. At that time…the biggest thing is the connection…the international networking with others. At first I didn’t know, but with the connection with the government, [he held high executive post in several Banks in Malaysia ie Bank Bumiputra, Malayan Banking and Kwong Yik Bank before he gets himself involved in business], with other people who have high positions in the government and also in private sectors, it easier to find the opportunity and to get the contact.

Of course I would say leadership…(he gave a small laugh)…it’s not that I want to praise myself, but I manage to take the whole organization.

[My note: In the case of acquisition, this is a big shift because it is unusual for a Chinese owned company, to be taken over to a Malay partner. But the acquisition took place in 1997, where the country was hold up with political turmoil and economic disorder, in which not only Malaysia was severely affected but the whole region. The Chinese will not be defeated by their financial burden or their management failures. Usually the Chinese employers are loyal, thus would be very reluctant to agree with the new leadership].

Once you see the opportunity and able to convert it into another opportunity…well if not you, someone else will grab it. At that time that guy
was in bad situation, So I see the opportunity, and I managed to talk to the banks and convinced them about the company potential…due to my connection with the banks, I have them backed me up, up to 3 million from the local banks. I met the banks’ GMs personally, so that’s an opportunity for me, that’s why I said connection is very important.

And encouragement…be able to encourage people, through your communication…able to convince others.

Closing
Q: **Respondent’s profile**
A: Name: Dato’ Hj. Lamin Bin Ismail
   Position: CEO Executive Chairman
   Service with the firm: Since 1997: 8 years
   Length of working experience: Since 1972: 33 years
   Highest level education: Bachelor in Accounting at University of Malaya. Masters at the Business School in New York
   International Exposure: A lot
   Personal Goal & Vision: To build up houses for senior people and for orphans.
   Philosophy: “Able to see opportunities and transfer it into profit”
   Age: 57 Years. (12/12)

Q: Okay Thanks a lot. Assalamualaikum.
## APPENDIX 4: An Example of Coding Procedure

### ISSUE I: THE INTERNATIONALISATION AWARENESS

<table>
<thead>
<tr>
<th>Interview Scripts</th>
<th>Issue</th>
<th>Sub-theme</th>
<th>Theme</th>
<th>Dimension</th>
</tr>
</thead>
<tbody>
<tr>
<td>“...After so long in the business, you know where to seek for information. Apart from the information given by the government, your business colleagues, people write to you personally. You have to establish your local and international contacts. When the chain is there, you’ll find it so much easier to penetrate into global market.” [EE5]</td>
<td>Sources of information and international opportunities</td>
<td>Create general contacts</td>
<td>Networking</td>
<td>Various sources</td>
</tr>
<tr>
<td>“I have good rapport with SMIDEC, MATRADE, MPC and the MECD. So I have the opportunity to go for higher management trainings overseas.” [WF5]</td>
<td>Sources of information</td>
<td>Create contact relevant agencies</td>
<td>Relevant networking</td>
<td>Institutions</td>
</tr>
<tr>
<td>“The vendors, colleagues, business associates, clients would tell about the business opportunities abroad.” [RP1].</td>
<td>Sources of information</td>
<td>Create contact with business associates</td>
<td>Specific networking</td>
<td>Other business players</td>
</tr>
<tr>
<td>“Sometimes I made personal visit to my principals, or partners. This was not to gain profits, or to set up contracts but just personal visits. We just talk, have lunch, dinner and come back. That strengthens the relationship! And that is a good kind of relationship”. [EE8]</td>
<td>Sources of information</td>
<td>Create personal contacts</td>
<td>Personal networking</td>
<td>Personal relations</td>
</tr>
</tbody>
</table>
| “We promote the company on the internet, we have our own website. Somehow it helps using the internet, since it has become the source of information today. There are many companies in the world involved with the plastics industry, so through internet, we get to know them and we establish relationships.” [RP5] | Sources of information                                                | Create general contacts through internet technologies | Other efforts             | Market research
|                                                                                 |                                                                       |                                        | Internet usage, Web sites, Reading materials, |                               |

### ISSUE II: THE INTERNATIONALISATION PROCESS

<table>
<thead>
<tr>
<th>Interview Scripts</th>
<th>Process of Internationalisation</th>
<th>Pace dimension</th>
<th>Gradual/Stages process</th>
<th>Traditional pattern</th>
</tr>
</thead>
<tbody>
<tr>
<td>“When we started the business, we did not export straight. We started as a trading company. We bought products from overseas, and then we did the packing, and slowly marketed them in Malaysia. After that we bring in machines, then we do the assembly, and after that we sell our products overseas.” [RP2]</td>
<td>Process of Internationalisation</td>
<td>Pace dimension</td>
<td>Fast process</td>
<td>Rapid pattern</td>
</tr>
<tr>
<td>“When I first started the firm in 2002, I was concentrating on bringing awareness to the local market. I believe that if the local market is not strong, the foundation is not there. It’s like a pillar. Then you can bring it off to the foreign markets. It was last year, in 2005 when somebody told me that, “you have a niche product, why don’t you export?” So, I started exporting.” [RP4]</td>
<td>Process of Internationalisation</td>
<td>Pace dimension</td>
<td>Fast process</td>
<td>Rapid pattern</td>
</tr>
</tbody>
</table>
**We started immediately as our focus has always been overseas.**” [AG2]

<table>
<thead>
<tr>
<th>Process of Internationalisation</th>
<th>Pace dimension</th>
<th>From inception</th>
<th>Born global</th>
</tr>
</thead>
<tbody>
<tr>
<td>We are born global because our products are developed for overseas markets. That enforces a strong will to go out.” [TM5]</td>
<td>Process of Internationalisation</td>
<td>Global products</td>
<td>From inception</td>
</tr>
</tbody>
</table>

**ISSUE III : DRIVING FORCES**

<table>
<thead>
<tr>
<th>“Malaysia is having a difficult time, the business line is getting slow, government spending has dropped, there are more players in the market, and the pie is smaller. So, you have to go outside!” [EE2]</th>
<th>Business getting slow, more players, market saturated</th>
<th>Local market condition</th>
<th>Domestic forces</th>
<th>Motivating factors (Pushing)</th>
</tr>
</thead>
<tbody>
<tr>
<td>“Compared to Malaysia, the level of awareness of people in Australia toward health product is increasing, but in Malaysia it is still quite low. The Malaysians probably know about the existence of this product, but to take it and make it as regular supplement, is still very low.” [BH7]</td>
<td>Overseas demand</td>
<td>Global market condition</td>
<td>Global forces</td>
<td>Motivating factors (Pulling)</td>
</tr>
<tr>
<td>“There are no officials to look into entrepreneurs’ matters and problems. Some officers are not certain what certifications are required for our shipping documents.” [FB2].</td>
<td>Lack of coordination among policy makers or government agencies</td>
<td>Government policies</td>
<td>Internal barriers</td>
<td>Inhibiting factors</td>
</tr>
<tr>
<td>“...That’s not the case. Other countries don’t really accept the approval by SIRIM. They don’t care about the letter from our Ministries either. To them, the approval must come from their authorities!” [BH6]</td>
<td>Lack of compliance with international standard</td>
<td>Host country policies</td>
<td>External barriers</td>
<td>Inhibiting factors</td>
</tr>
</tbody>
</table>

**ISSUE IV : KEY DRIVERS**

<table>
<thead>
<tr>
<th>“If you want to go global, you must be strong financially. That is number one. The most important is finance. Number two, staff, especially technical staff. They must be capable. They must be educated. They must be loyal and competent people, who can help you promote your product overseas and also help to deliver proper design and quality for overseas’ customers.” [EE6]</th>
<th>Financial resources, competent human resources</th>
<th>Firm Resources</th>
<th>Firm capabilities</th>
<th>Firm-specific factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>“You’ll find that people who are so successful overseas always have this philosophy, ‘I want to go out there!’ This means you must have the urge to compete for foreign markets and take up the challenge to become global players.” [EE6]</td>
<td>Strong philosophical views, positive minded, reactive</td>
<td>Key personnel abilities</td>
<td>Key personnel competencies</td>
<td>Key personnel factors</td>
</tr>
</tbody>
</table>
APPENDIX 5: Letter of Support from Supervisors to the Researcher’s Employer

Letter of Support for Zizah Che Senik

TO WHOM IT MAY CONCERN

We write in support of Zizah Che Senik’s request to go back to Malaysia for her data collection for her Ph.D. research in early December 2005 till end of January 2006.

Zizah is one of our ablest Ph.D. students and has undertaken a very important piece of work, looking at the most influential driving factors affecting the internationalisation of small and medium sized (SMEs) firms in Malaysia. At the moment the factors that contribute to the successful internationalisation in this area are drawn largely from the studies conducted at western and developed countries. We have to understand the influential factors for SMEs internationalisation from a highly developing country such as Malaysia.

To do this, we need to work with SME owners or key managers through in-depth interview case studies method over a period of time to track the pattern of internationalisation among the SME firms in Malaysia. Zizah’s study will bring the best insights that we have from the fields of international business and strategic management to assist the movement of international trade in the context of internationalising SMEs in Malaysia.

As Zizah is supervised by us, we trust that she will be able to bring both a leading academic and practitioner perspective to her own investigations.

We hope that you will be able to grant permission for Zizah to conduct field work in Malaysia. Please feel free to get in touch with us if you have any questions about the conduct of this research.

Yours sincerely,

Associate Prof. Lanny Entrekin                    Dr Brenda Scott Ladd
Position: Emeritus Professor                     Position: Senior Lecturer
Murdoch Business School                          Murdoch Business School
Murdoch University                                Murdoch University
South Street                                      South Street
Murdoch WA 6150                                  Murdoch WA 6150
Tel: (618) 9360                                   Tel: (618) 9360 6028
Email: L.Entrekin@murdoch.edu.au                  Email: B.Scott-_Ladd@murdoch.edu.au
Appendix 6 : Consent Letters Approved by The Ethics Committee of Murdoch University

RESEARCH PROJECT:
The Internationalisation of Small and Medium Enterprises in Malaysia.

I am a PhD student at Murdoch University and an International Business/Management lecturer at Universiti Kebangsaan Malaysia. As part of my doctoral studies I am investigating the Internationalisation of Small and Medium Enterprises (SMEs) in Malaysia under the Supervision of Assoc. Prof. Lanny Entrekin and Dr. Brenda Scott-Ladd. The purpose of this study is to find out what affects the internationalization process of Malaysian SMEs.

You and your firm can help in this study by consenting to participate in a half hour interview. As an interview participant, you will be requested to express your views on the factors that triggered the internationalisation of your firm. This will explore the entry mode and market selection, the environmental influences toward international markets and firm’s characteristics. You can decide to withdraw your consent at any time. All information given during the survey is confidential and no names or other information that might identify you will be used in any publication arising from the research, unless you give written permission for this to happen. A summary of feedback on the study will be provided to you upon request.

If you and your firm are willing to participate in this study, could you please complete the details below. If you have any questions about this project please contact me, Zizah Che Senik on (618) 93602557 or my supervisors, Associate Professor Lanny Entrekin, on (618) 93602528 and Dr. Brenda Scott-Ladd on (618) 93606028. If you have any concerns about the way in which this research is being conducted, you may also contact Murdoch University's Human Research Ethics Committee on (618) 9360 6677.

******************************************************************************

I_________________________ have read the information above. Any questions I have asked have been answered to my satisfaction. I agree to take part in this activity, however, I know that I may change my mind and stop at any time.

I understand that all information provided is treated as confidential and will not be released by the investigator unless required to do so by law.

I agree for this interview to be taped.

I agree that research data gathered for this study may be published provided my name or other information which might identify me is not used unless I give written permission for this to happen.

Name of Participant:

Signature of Participant:
Date:

Researcher: Zizah Che Senik

Signature of Researcher:
Date:
Dear _______________________

Re: A Request to Participate in Survey
(Research Topic: The Internationalisation of Small and Medium Enterprises (SMEs) in Malaysia)

I am a PhD candidate at Murdoch University, Western Australia, and a lecturer at Universiti Kebangsaan Malaysia (UKM). At present I am conducting a research project on “the internationalisation of small and medium enterprises (SMEs) in Malaysia”. This research is fully supervised by the Murdoch Business School and my two supervisors, Associate Professor Lanny Entrekin and Dr Brenda Scott-Ladd.

The movement of SMEs into international markets creates continuous challenges and opportunities. The purpose of this study is to gain a deeper understanding on the internationalisation process of SMEs in Malaysia. The outcomes of the study will be significant for the international involvement of Malaysian SMEs and will benefit the owners and managers of such firms, offering useful guidelines for future internationalisation.

You are being invited to participate because your firm is currently engaged in an international market. Because of your experience I would value your willingness to participate in my survey. I strongly believe that your experience and knowledge will make a substantial contribution to this study. All the information given will be kept strictly confidential, unless you give written permission for your name or companies name to be disclosed. A summary of my findings will be made available to you upon request, in appreciation of your contribution.

I can be contacted via e-mail and phone at the above address. Please do not hesitate to contact me at any time if you need further explanation. I will contact you within the coming week to discuss this request with you and answer any further questions you may have. I would greatly appreciate your cooperation and contribution.

Yours sincerely

Zizah Che Senik

PhD Candidate
Murdoch Business School
Arts Research Division,
Murdoch University
Western Australia 6150

Lecturer
School of Business Management
Faculty of Economics and Business
Universiti Kebangsaan Malaysia
43600 UKM, Bangi, Selangor
Malaysia
Appendix 7: Publications From This Thesis

Conference proceeding (refereed)


Journal