

## **Influential Factors for SME Internationalization: Evidence from Malaysia**

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### **ABSTRACT**

Factors influencing small-to-medium enterprises (SME) internationalization have been discussed in developed countries, yet developing countries are still struggling for empirical evidence. This article seeks to investigate the influential factors and identify the most influential aspects that drive Malaysian SMEs to internationalize. This exploratory study applied a Delphi technique through telephone interviews and e-mails. A panel of 32 experts including academicians, policymakers, government agencies, the Chamber of Commerce and research institute participated in this study. The Expert Panel was identified from the internet and through personal contacts. The experts were selected based on their positions, qualifications, affiliations, age and length of working experience. The findings found that the influential factors are firm characteristics, industry factor, external influence, and motivational aspects. Interestingly, this study revealed that the most influential factor is networking. Therefore, a Malaysian model of the factors influencing SME internationalization is derived. In particular, this study provides some insights into SMEs internationalization process and identifies suggestions for future research.

**Keywords:** Internationalization, Small-to-Medium Enterprises (SME), influential factors; experts opinion, Delphi technique, Malaysia

### **INTRODUCTION**

Previous studies on the internationalization of small to medium sized enterprises (SMEs) have been conducted by western researchers in developed or high-income

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countries (see, for examples: Coviello and Munro, 1997; Gemser, Brand and Sorge, 2004; Hutchinson, Fleck, and Lloyd-Reason, 2009; Moen and Servais, 2002; Wickramasekera, 2004). According to Kuada and Sørensen (2000) the subject on factors influencing internationalization of SMEs within developing countries is not yet fully explored. A review of sixteen recent empirical studies between 1992 and 1998 by Coviello and McAuley (1999) revealed that only one study was conducted in a developing country. This discovery has sparked the researchers' interest to better understand the experience of SMEs in developing countries, in particular Malaysia.

Located in Southeast Asia, Malaysia is one developing country that is assisting SME to become international players. Malaysia has advantages such as political stability, a first-class physical infrastructure, and a skilled, multicultural and multilingual workforce (The NST, 2006). Currently, the country is competitive in attracting direct foreign investments and is among the world's top 20 trading nations (FMM Directory, 2005). Recently, there are 518,996 SME representing 99.2% of total business establishments in Malaysia. Of this total only 5,221 are active exporters, contributing 16.6% of total Malaysian exports (SME, 2006). These SME exporters are mainly located in the manufacturing sector (57.6%), services (40.6%) and agriculture (1.8%). As of 2005, major export destinations for manufactured products were the ASEAN countries (27.2%), the USA (23.4%), the European Union (10.4%), Japan (7.4%), Hong Kong (7%), People's Republic of China (6.1%) and 18.5% to the remainder of the world (EPU, 2006). The above statistics show that the Malaysian economy does rely on SME and their increasing dependency on international trade. Therefore, this study aimed to gain a preliminary understanding of the internationalization process of SME in Malaysia.

There have been some studies on SMEs internationalization in Malaysia (eg., Hashim and Hassan, 2008; Zain and Ng, 2006; Andersson, Eriksson and Lundmark, 2006) however, the empirical evidence and contribution to theory on this topic is still lacking. For instance, although Hashim and Hassan (2008) contribute to the empirical evidence, their study has not identified specific theory of internationalization, while Zain and Ng (2006) and Andersson, Eriksson and Lundmark (2006) only focused on one perspective, the networking and born global respectively. In the meantime, researchers have argued that the Internationalization process crosses diverse theories (Morgan and Katsikeas, 1997; Welch and Luostarinen, 1988), but it is still inconclusive (Crick and Barr, 2007; Etemad, 2004b; Han, 2007). Therefore, an integrated view of firm internationalization theories is recommended (Jones and Coviello, 2005). Thus, this study explores the factors affecting the internationalization of Malaysian SMEs through the lens of gradual internationalization models, Networking, Resource-based View and International New Ventures.

To achieve this, a panel of experts representing a diverse range of perspectives was interviewed using a Delphi technique. The study had three objectives: (1) to

investigate the influential factors affecting the internationalization process, (2) to identify the most influential factors affecting Malaysian SME going international, and (3) to develop a Malaysian model of the influential factors affecting SME internationalization. Consequently, the outcomes of this research could deepen the understanding of SME internationalization process and assist in enhancing the capability of Malaysian SME in becoming world-class players. The next section presents the relevant literature, whereas the third and fourth sections present the methodology and findings respectively.

## LITERATURE REVIEW

Theoretically, there is a lack of consensus on how to define SME (Gibb, 1993; Curran and Blackburn, 2001) as each country defines SME differently. For instance, in developed countries such as the European Union (Eyre and Smallman, 1998) the SMEs are the enterprises that employ less than 500 employees. In Malaysia, the SME are defined as “*firms with annual sales turnover not exceeding RM25 million or full time employees not exceeding 150*” (SMIDEC, 2002, p.31).

Likewise, there are some differences of opinion in defining ‘Internationalization’ (see, for example: Andersen, 1997; Beamish, 1990; Calof and Beamish, 1995). This study adopts Calof et al., (1995, p.116), “*Internationalization as the process of adapting the firms’ operations (the strategy, structure, and resources) to the international environment*”. This is because it conveys the idea of internationalization being dynamic and adjustable and is thus more suited to emerging internationalization processes.

## APPROACHES TO INTERNATIONALIZATION

Different approaches and perspectives have contributed to the literature of firm’s internationalization (Morgan and Katsikeas, 1997), and these issues have been researched over three decades (Etemad, 2004). For instance, a gradual perspective of SME internationalization is explained in the Uppsala Model, and the Finnish-POM Models (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977). The other perspective is that SME internationalization is explained by a network approach (Kenny and Fahy, 2004; Majkgård and Sharma, 1998; Welch and Welch, 1998) and another view is described as the International New Venture perspective (Oviatt and McDougall, 1994; Zahra, Ireland, and Hitt, 2000). These models are briefly discussed below.

Of the gradual approaches, the Uppsala Model initiated by Johanson and Wiedersheim-Paul (1975) and further developed by Johanson and Vahlne (1990 and 1977) is widely used to describe pattern of small firms’ internationalization (Andersson, 2004). The Uppsala Model has been operationalised in two patterns. First, is the four stages of foreign entry; from no regular export activities, to

exporting via independent representatives (agents), then moving into sales subsidiaries, before moving into production or manufacturing. This implies that firms make their initial entry into a market using a low risk and low commitment strategy, such as with direct exporting, before increasing to 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 distances, in terms of language, education, business practices, culture, and industrial development differences (Johanson et. al, 1990; Hollensen, 2001). This model suggests firms enter a particular market close to and similar to the home country before expanding into more distant and dissimilar markets.

The second gradual model, the Finnish-POM Model distinguishes three dimensions of internationalization (Luostarinen, 1979). First is Product (P), which describes 'what' in terms of the firms' goods, services, know-how and systems. Second is the Operation mode (O) which relates to 'how' firms operate such as 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 'organizational capacity' dimension was a later addition to describe organizational structure, resources, finance and personnel (Welch and Luostarinen, 1988). This model has been given little attention in previous research (Reiljan, 2004), despite that it provides in-depth dimensions which are lacking in the Uppsala Model. Nonetheless, neither gradual model addresses the issues of networking.

The networking perspective explains how relationships through business network lead to SME internationalization process (Johanson and Mattson, 1988). The term network relates to a collection of 'actors' including people, departments, or business, and their strategic links such as family, community, finance, or business alliances with each other (Johnsen and Johnsen, 1999). Networking linkages with governments, agencies and other firms assist the process (Welch et al., 1998). According to Madhok (1997) networking could overcome size inconveniences. While Sharma (1993) suggests that networking could influence strategic decisions and involve the exchange of resources among different members. Networking within and outside the SME network enhances firm's performance (Fuller-Love and Thomas, 2004; Wincent, 2005). Rutashobya and Jaensson (2004) concur that in explaining SMEs internationalization process, the network view is the most relevant especially for small firms. This is because it is convenient for explaining 'why' and 'how' firms internationalize (Johanson et al., 1988). Nonetheless, networking accelerates the internationalization process, explaining the emergence of International New Venture theory.

The International New Venture theory emerged in the mid nineties in response to the recognition that many firms do not go along with the gradual models in their internationalization process (Etemad, 2004a; Kenny et al., 2004). These firms are

called 'Born Global' (Knight and Cavusgil, 1996; Rennie, 1993), whilst Oviatt et al., (1994) identify them as 'Global Start-ups' or 'International New Ventures (INVs) firms. This model focuses on the age and not on the size of the firms and suggests that the INVs retain unique assets and capabilities that enable firms with limited resources to venture faster into foreign markets. Although all the above models explain the process of internationalizing firms, they still do not address the question of what forces the SME to go international.

The factors influencing why SME go into international markets can be studied through the motivational factors for Internationalization. They can be due to proactive and reactive reasons (Czinkota, Johanson, and Ronkainen, 2002). These include push and pull factors that include positive situational and business opportunities (Littunen and Tohmo, 2003). In some cases, the pushing or the pulling factors have more influence, whereas in others it is the interaction between pushing-pulling factors (Etemad, 2004). Internal and external change agents can also drive internationalization (Crick and Chaudhry, 1997). Understanding why SME operate in the foreign markets will facilitate the internationalization process preparation required by SME; therefore, it is important for both researchers and managers to understand the factors affecting SMEs Internationalization.

## **DATA AND METHODOLOGY**

This section discusses the methodology employed for the study and justifies the selection of the expert panel. Since little is known about the internationalization process of manufacturing SMEs in Malaysia, an exploratory approach (Hesse-Biber and Leavy, 2006; Yin, 1994) was the most suitable method for data collection. Lindqvist and Nordänger (2007) argued that the best method in getting structured and systematic feedback on complex issues is through Delphi technique.

However, Czinkota and Ronkainen (2002) argue that the Delphi technique has not been utilized in the international business research, even though the experts' opinions are significant especially in developing public policy. In addition, since SME internationalization involves complicated process, institutions and individuals at local and foreign levels, therefore, experts' opinions are necessary in gaining comprehensive perspective on internationalization process.

The application of Delphi studies in qualitative market research is still neglected (Grant, Gilmore, Carson, Laney, and Pickett, 2001). This study enhances the interpretivism approaches in SME internationalization studies since much research in this area is still focused heavily on the positivism methodological approach (Jones and Dimitratos, 2004). Indeed, as Bell, McNaughton, and Young (2001, p.16) argue "more holistic approaches to research" are required within the area of SME internationalization. Hence, this paper applied the Delphi technique approach by interviewing a panel of Malaysian-based experts.

## DELPHI TECHNIQUE

According to Cope (1981, as quoted from Pollard and Pollard, 2004) Delphi technique was originally designed by the US military during the 1950s to predict war scenarios (at that time). Since then it has been applied across disciplines including industry, politics and sciences (Ziglio, 1996; Wiersma and Jurs, 2005). Delphi 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 and Turoff, 1979, p. 574). Thus, the main purpose of this technique is to obtain consensus of experts’ opinion on complex issues (Dunham, 1998).

### Selection of the Experts

The Expert Panel is supposed to provide “*a source of direct information*” (Sekaran, 2003, p.222). Therefore, it is 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. In addition, age, qualification, and experience, which are highly correlated, are significant in obtaining excellent feedback.

The names and affiliations of the Expert Panel were identified from the internet and through personal contacts. To ensure the authenticity of their stances, respondents were targeted due to their positions, qualifications, affiliations, age and length of working experience. The experts were drawn from five categories namely; academics (AC), policy makers (PM), supporting government agencies (SGA), the Chamber of Commerce (CC), and research institutes (RI). The participants comprised 24 males (88%) and 8 females (12%); six were academics (19%); eight were policymakers (25%); eight were from government agencies (25%); four were from the Chamber of Commerce (12%) and six were from research institutes (19%). These experts ranged in age from their early to late 30s (19%), early to late 40s (56%) and early to late 50s (25%).

The qualifications of the experts range from Senior Lecturer to Associate Professors for the Academics, whereas others were senior level employees; Director, Assistant Director and Executive levels. All are highly specialized in the disciplines such as SME development and Entrepreneurship, Franchising Business, Strategic Management and Planning, International Business, Global Marketing, Cross Border Investment, Foreign Direct Investment, Small Medium Industry, and Research and Development. The experts represent a range of institutions or departments that are directly involved with SME development in Malaysia. For example, policymakers were drawn from the Ministry of International Trade and Industry (MITI), the Ministry of Entrepreneur Development (MED), ‘*Majlis Amanah Rakyat*’ (MARA) - ‘Council of Trust for Indigenous’ and Malaysian

Industrial Development Association (MIDA). Other supporting government agencies included the Small and Medium Industries Development Corporation (SMIDEC), Malaysia External Trade Development Corporation (MATRADE), Malaysian Technology Development Corporation (MTDC), Malaysian Industrial Development Finance (MIDF) and Malaysian Industrial Entrepreneur Location (MIEL). The Chambers of Commerce were represented by the Malay Chambers of Commerce and Malaysian Chambers of Commerce. The research institutes were represented Standards and Industrial Research Institute of Malaysia (SIRIM) and Malaysia International Research Institute (IKMAS).

These supporting bodies all have a role in upholding the implementation of programs targeted at developing SMEs (Hashim and Wafa, 2002) and linking Malaysian SMEs with large, local or foreign owned corporations (Mori, 2005). Part of their role is to encourage internationalization by subcontracting, exporting, and collaborating through joint ventures, licensing or franchising (SMIDEC, 2002).

All of the experts have working experiences ranging from more than 10 years, and in some cases up to more than 30 years. This brief description of the panel of experts demonstrates that they are qualified and experienced to give relevant opinions and a legitimate understanding of the internationalization process of Malaysian SME. Thus, the experts in this panel were considered well-informed as they met these criteria.

## **DELPHI TECHNIQUE PERFORMED IN THIS STUDY**

This study employed semi-structured interviews. The interviews were conducted during September and November 2005 which lasted from 30 to 45 minutes. All together fifty-five experts were approached by email or telephone and were invited to take part in the study. Follow-up letter outlined the purpose of the study, the questions, and the requested written consent was sent to those who agreed to participate. Finally thirty-two participants were interviewed by telephone and through email. The conversations were taped recorded, and manually analyzed.

The procedural steps in adopting the Delphi technique were as follows:

### **Pre Delphi Technique Process**

- Conducted rigorous literature search on “the Internationalization process of SMEs”.
- Searched for potential experts with diverse background to participate in the study.
- Approached experts.
- Categorized the panel of experts into 5 groups.
- Established rapport with them through email and telephone conversations.
- Scheduled suitable time and date for interviews.

- Followed up to confirm participation.
- Develop preliminary questions

## **During Delphi Technique Process**

### ***Round 1: Gathering Information***

The experts responded to these questions:

- What motivates the SMEs in Malaysia to internationalize?
- How do the SMEs aware of international opportunities?
- What factors affecting SMEs to internationalize?
- Which modes do they take for their internationalization?
- What are the barriers for SMEs to internationalize?

### ***Round 2: Developing and Confirming Themes***

- Analyzed the responses.
- Identified 205 themes
- Classified the items into 24 categories.
- Compared the emerging themes and categories with the literature.
- Discussed the appropriateness of the items within the categories with fellow researchers.
- Determined the influential factors or dimensions for internationalization.
- Confirmed with the experts on the influential factors or dimensions as well as the 24 categories.

### ***Round 3: Confirming Influential Factors***

- Analyzed the ranking using the self generated formula (APEO formula)
- Confirmed the rank of the five influential factors in terms of importance with the experts through e-mail. Generated a Model of Influential Factors Affecting SME Internationalization.

The analysis of the experts opinions are presented in the following section.

## **RESULTS AND ANALYSES**

This section presents an analysis of the experts' opinions, starting with the factors that influence SME to go international, followed by the identification of the most to the least influential factors. Finally, a model of the internationalization process of Malaysian SME is developed and discussed.



## Influential Factors

Twenty-four key themes were identified as reasons Malaysian SME internationalize and these can be categorized into five different factors or aspects. The first factors relates to the reasons or motives for internationalizing; the second relates to firm characteristics, such as firm itself and the top managers; the third relates to Industrial issues; the fourth relates to external influences and the fifth relates to factors of networking. The analysis is presented in Table 1. This table illustrates the percentage of consensus among the experts.

**Table 1** Influential factors

Factors (Dimensions)	Categories	No. of Items	No. of Experts (N:32)	% of Experts	
1. Motivational	Domestic Conditions	11	22	69%	
	Market Issue	11	22	69%	
	Resource Seeking	9	16	50%	
	Globalisation	4	16	50%	
	Follow Suppliers	4	10	31%	
	For Survival	5	8	25%	
	<b>Total items</b>		<b>44 Items</b>		
2. Firm	i. Firm itself	Resources	10	20	63%
		Product	11	20	63%
		Capability	6	14	44%
		Reputation	7	10	31%
	<b>Total items</b>		<b>34 Items</b>		
	ii. Owner/Key Managers	Skills and Ability	20	28	88%
		Attitude	16	24	75%
Background		11	22	69%	
<b>Total items</b>		<b>47 Items</b>			
3. Industrial	Intense Competition	7	28	88%	
	Market Attractiveness	5	18	56%	
	Economies of Scale	1	16	50%	
	Nature of Industries	8	12	38%	
	<b>Total items</b>		<b>22 Items</b>		
4. External	Economy	11	22	69%	
	Political	8	20	63%	
	Technology	5	16	50%	
	Society	8	8	25%	
	<b>Total items</b>		<b>32 Items</b>		
5. Relationship (Networking)	Institutions	12	32	100%	
	Personal Relation	7	26	81%	
	Business Associates	7	24	75%	
	<b>Total items</b>		<b>26 Items</b>		

Within each of the five main factors, a variety of issues were identified. In the first factor, the experts identified 44 items as motives or reasons that trigger Malaysian SME to internationalize. These motives can be classified into six sub-categories: 69% of the experts deemed domestic conditions (11 items) and market issues (11 items) as being the most important influential factors; 50% also identified resource seeking (9 items) and globalization (9 items) as important; 31% referred to the need to follow a supplier (4 items); and 25% said the SME needed to go international for survival (5 items).

Within the second factor which is the firm factors, two important drivers were identified. The first is the firm itself, for example, the firm's human, financial and other resources, products, capabilities and reputation. The second is the key characteristics of top managers. All together 81 items were identified, with 34 items related to characteristics of the firm and 47 items related to top management characteristics. The characteristics of the firm items can be grouped into four categories; 63% of the experts referred to the importance of resources (10 items), and products (11 items); 44% identified capability (6 items) and 31% identified reputation (7 items). Of the 47 items related to the top managers' characteristics, three categories were identified; 88% of the experts identified predominant characteristics that are interpersonal skill and ability as (20 items) as significant, 75% identified attitude (16 items) and 69% referred to the managers background (11 items). These findings suggest strong agreement among the experts that top management characteristics, such as interpersonal skills, attitude and background have a significant influence on the firm's choice to go international.

The third factor or dimension that also influenced an SME choice to be an international player was the industrial factors. The expert panel asserted 22 items were influential in this category. Four categories emerged in relation to the industry; 88% of the panel identified intensity of competition (7 items); 56% thought that attractive markets outside of Malaysia were a temptation for the SMEs (5 items); 50% mentioned improved economies of scale economies (1 item); and 38% identified the nature of a business sector (8 items) making easier access to foreign markets. The finding also indicates that the nature of the sector or industry could be related to 'Halal' products, electrical equipment, furniture and other wood-based products.

In the fourth factor or dimension that also influenced the internationalization of SME was the external factor. The experts mentioned 32 items influenced internationalization. These can also be grouped into four categories; 69% identified economic factors (11 items), 68% identified political forces (8 items) and 50% identified technology (5 items) whereas 25% identified society (8 items). These findings suggest that the SME need to have a deep understanding of how external factors can affect their business when going international and support previous findings on the emergence of early internationalising firms by Knight and Cavusgil (2004). For example, SMEs need to be alert to foreign and local political and

economic matters; to be knowledgeable about different cultures and the ways business is conducted in foreign countries; to be aware of and utilise advanced Information and Communications Technology (ICT). Significantly, the findings highlight the importance of being aware of changes in the external environment. The following two examples highlight this point. Firstly, globalisation of markets has enabled firms to participate in international outsourcing and cross-border alliances in product development at reduced transaction costs; and secondly, technological advances in information and communication, international transportation and logistics have facilitated rapid growth in international trade (Knight and Cavusgil, 2004).

To be able to answer the questions about the processes of Internationalization, the role of networking also needs to be considered and this is picked up in the fifth factor. The majority of the experts in this study also agreed that networking and relationships can play a remarkable role by linking SME into global markets. Altogether, 26 items were derived from the interviews. All experts (100%) agreed on the importance of institution such as supporting government agencies (12 items), 81% cited personal relations through individual contacts with friends, colleagues, students, or family members (7 items) and 75% referred to the importance of linking up with other business associates such as either small or large and local or foreign firms (7 items).

## The Most Influential Factors

In identifying the most influential factors affecting internationalization process of SME in Malaysia, the average percentage of experts' opinion (APEO) is considered the most accurate measurement. This is because the percentage represents the cumulative response rate of the experts by the items under each category. The number of items within the categories alone indicates the frequency of the items mentioned by the panels; and this does not represent the consensus of the experts. Therefore, the indicator of average responses needs to consider both the total percentage of experts who mentioned the items under each category and the number of categories under each factor (Refer to Table 1, column 2 for number of categories and 5 for percentage of experts who mentioned the items). The most influential factors can be achieved by using the following basic formula.

$$APEO_{\text{factor}} = \sum \% \text{ of Experts}_{\text{categories}} / N_{\text{categories}}$$

where,

- $APEO_{\text{factor}}$  = Average Percentage of Experts' Opinion  
 $= \sum \% \text{ of Experts}_{\text{categories}}$  = Total Percentage of Experts' Opinion for each category (Refer to Table 1, column 5)  
 $N_{\text{categories}}$  = Number of Categories for each Factor (Refer to Table 1, column 2)

Using this formula the average percentage of the experts' opinions (APEO) in relation to each of the five factors and the items within the categories can be derived. Based on this formula the average percentage of the experts' opinions is shown in Table 2.

**Table 2** The most influential factors

Aspects	( $\Sigma$ % of Experts/N)	APEO	Rank
1. Motivational	$69+69+50+50+31+25=294$ $=294/6$	49.00%	5
2. Firm	i. Firm itself $63+63+44+31=201$ $=201/4=50.25\%$	79.00%	2
	ii. Key Managers $88+75+69=232$ $=232/3=77.33\%$		
	iii. $(50.25+77.33)/2$		
3. Industrial	$88+56+50+38=232$ $=232/4$	58.00%	3
4. External	$69+63+50+25=207$ $=207/4$	51.75%	4
5. Networking/Relationship	$100+81+75=256$ $=256/3$	85.33%	1

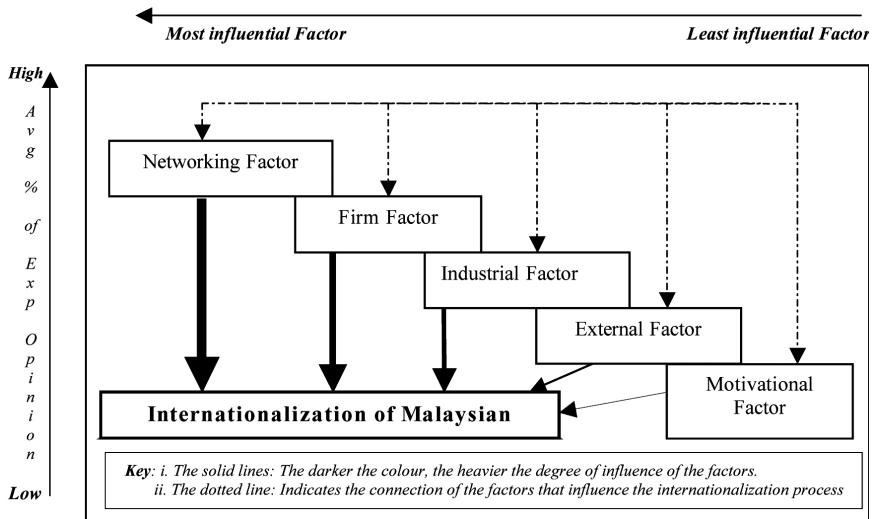
Note: APEO represents the average percentage of the experts' opinions

Table 2 shows that more than 85% of experts identified networking or relationships as the most influential factors in the internationalization process. The two next most influential factors were the firm and the industrial factors, as indicated by an average of 79% and 58% respectively. The last two factors influencing Malaysian SME to enter foreign markets are external and motivational factors at 52% and 49% respectively. Interestingly, the networking or relationships were perceived as the most important influences on the internationalization process. As the majority of the experts represent supporting government bodies that offer various types of assistance to the SME; it was expected that the motivational factor would be perceived as the most crucial. Surprisingly, this factor was ranked the last amongst the five factors.

Up to now, the analyses and discussions on the findings have focused on the first two research objectives and have identifies the influential factors of Malaysian SMEs internationalization. We believe the findings are significant and have helped uncover information to address the final research objective that is to develop a unique model showing how Malaysian SMEs internationalize.

## Model of Influential Factors Affecting SME Internationalization

A visualization of the most influential factors of the internationalization process for Malaysian SME is illustrated in Figure 1. This model demonstrates the relationship between the average percentage of experts' opinion and their weighting of the factors influencing the internationalization of Malaysian SMEs. The darker the color of the connecting line, the stronger the perceived influence of the factor. In addition, the model captures the experts' opinion that these factors are all interrelated with each other. This means that no one aspect fully explains the process; rather they go hand in hand and each affects the others.



**Figure 1** The Model of Influential Factors Affecting SME Internationalization

The discussion and implications of the findings in terms of how the study contributes to existing theory and practice, the limitations and the recommendations for future research are discussed in the following sections.

## DISCUSSION

The experts' viewpoints reported in this study did identify some unique factors that influence Malaysian SME internationalization. These include the role of networking or relationships to create awareness of international opportunities, a range of firm specific issues, industrial linkages factors as well as the external influences and motivational factors. The fact that all these factors are interrelated and influenced

by various factors and relationships within and outside the firm, supports previous findings that the internationalization process of SME in Malaysia is complex (Zizah, Entrekun, and Scott-Ladd, 2006).

In consensus, the panel of experts indicates that the most influential factor for internationalization was networking or relationship. This finding supports Rutashobya et al., (2004) that small firms may have to rely on networks to overcome their isolation in the current globalised market. Hashim and Hassan (2008) also agree that networking is crucial for Malaysian SMEs to expand to foreign markets. The reliance on networking is so substantial in SME internationalization as proven by findings in other countries such as Romania (Musteen, Francis, and Datta, 2010). According to the experts, the key actors in the firms need to create and maintain the networking particularly with relevant institutions and important business associates. Importantly, the SMEs must network or link up with Multinational Corporations and/or their subsidiaries so that they could speed up their internationalization process. It seems that these inter-firm linkages are critical for Malaysian SMEs to discover international market opportunities. This warrants further investigation, as has been previously called for by Moha-Asri (2002).

The findings also indicate that some SMEs may internationalize gradual or at faster speed. Therefore, the Uppsala and POM models that represent gradual perspective and INV perspective are applicable in understanding SMEs internationalization in Malaysia. However, all of these perspectives must be reinforced by networking perspective. These findings support the notion information is generated and processed through the firm networks (Johanson et al., 1977).

Apart from networking, to be able to successfully internationalize, the experts also stressed the importance of firms having strengths in terms of unique resources, sound finances, skilled and experienced employees, R&D capability, and ICT. This matches previous study that identified firm-specific factor as being resources such as unique assets, R&D spending, network and a good reputation, advances in ICT (Barney, 1991 and 2001; Madsen, Ramussen and Servais, 1999). In addition, the experts also mentioned that SME owners-top managers should have international exposure. This finding support Etemad (1999) who found in his study that in order to internationalize, the key actors must have international exposure, an international global vision, foreign education and experience. This study also found that to go international, it must be wanted and triggered by an SME entrepreneur which supports Andersson's (2000) findings. This contributes to resource-based view which emphasizes the importance of internal capability such as firm's unique and internally-owned resources as important drivers in achieving competitive advantage (Alvarez and Busenitz, 2001; Barney, 1991; 2001) which also supports the POM model on the 'organizational capacity' dimension (Welch and Luostarinen, 1988).

## **IMPLICATIONS FOR THEORY AND PRACTICE**

This study has provided some very interesting insights into the internationalization process of SME in Malaysia. From the theoretical aspects, the gradual approach presented in the Uppsala Model was expected to explain internationalization process; however the Network perspective seems to be the best fit approach to describe the internationalization process of SMEs in Malaysia. Through the networking, the SMEs enhance their knowledge on foreign markets, which in turn supports the gradual view of learning process proposed in the Uppsala Model. However, the networking must be developed by the SME owners-key managers indicating that a firm's choice for going international is related to their internal capability. With the emphasis on the networking, this study extends the Finnish-POM Model as well as the resource-based view on the importance of internal capability that enable the SMEs to internationalization. In addition, the strategic networkings of the SME owners-key managers with relevant institutions and business associates that can speed up the internationalization process confirm the INV and International Entrepreneurship perspectives. In order to gain deeper understanding on the SMEs internationalization, there is a need to integrate the above mentioned theories which conform to Jones and Coviello (2005) that integration of theories is needed to describe the internationalization of SMEs.

The findings give implications to managerial as well as policy. The Expert Panel expressed surplus concern over networking ability of SME owners-key managers and the authorities. They frequently mentioned the problems inherent in creating, developing and maintaining relationships with government agencies, business associates, local or foreign, small or big, friends, colleagues and relatives show the importance of networking in order to internationalize. More importantly, SME need to better utilize the government agencies in order to be aware of international opportunities. They also need to identify key persons in the host country who are knowledgeable, reliable and trustworthy. The SME owners-key managers should have the intention and motivation, global exposure, and possess internal capabilities. Overall the experts stressed that all the aspects of internationalization are important and interrelated and therefore none should be ignored.

## **LIMITATION AND SUGGESTION FOR FUTURE RESEARCH**

This study only utilised panel experts which could limit the understanding of internationalization process of SMEs from the perspective of practitioners or businessman. The viewpoints from the practitioner and businessman could provide more comprehensive understanding of the Internationalization process. Therefore, future research should include them as respondents. Also, future research may prove or disapprove the interrelated factors, categories and items identified in this study through statistical analysis.

## CONCLUSION

Overall, the study contributes to the understanding of SMEs internationalization through the perspectives of the panel of experts. The experts agreed that networking is the most important factor for SME to go international. Other factors that should also be emphasized are firm, industrial, external, and motivational factors respectively. In consensus, they suggested that domestic and global conditions trigger internationalization and it is the intention of the SME owners-key managers which determine the success of their firms' internationalization. Nevertheless, all of these factors are interrelated and neither one of them can be eliminated.

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