

## Internationalization of SMEs: Does Process Matter?

<sup>1</sup>Mohd Rafi Yaacob, <sup>2</sup>Fakhrul Anwar bin Zainol, <sup>2</sup>Wan Norhayate Wan Daud,  
<sup>1</sup>Nur Zulaikha Mohammad Rizani and <sup>1</sup>Mohammad Nizamuddin Abdul Rahim

<sup>1</sup>Faculty of Entrepreneurship and Business, Universiti Malaysia Kelantan,  
16100 Pengkalan Chepa, Kota Bharu, Kelantan, Malaysia

<sup>2</sup>Faculty of Economics and Management Sciences,  
Universiti Sultan Zainal Abidin, 21300 Kuala Nerus, Terengganu, Malaysia

---

**Abstract:** Small and medium enterprises (SMEs) in emerging economies are nowadays becoming increasingly significant in the internationalization of Asian countries. SMEs have now grown and are expected to be the largest cluster of industrial elements in most emerging countries. As with many emerging market firms in Southeast Asia, Malaysian firms have been late to internationalize. Exports by Malaysian SMEs were only 26% of their total output, which is much lower than neighboring countries like Taiwan, Hong Kong and the Philippines. This study focuses on the internationalization process of SMEs entrepreneurs in Malaysia. This study used a qualitative approach where a set of interview protocol was developed and the selection of entrepreneurs was chosen from MATRADE, the government agency involved in internationalization. The findings show an early process of internalization of Malaysian SMEs – their being engaged in export activities. Some of the important discourses extracted from the interviews were international networking, knowledge of international business, opportunities identification, in both local and international markets, as well as Custom's procedures.

**Key words:** SMEs • Entrepreneurship • Internationalization • International entrepreneurship

---

### INTRODUCTION

In Malaysia, 80 percent of the total business establishments are SMEs, however their contribution to total Export is relatively low [1]. In 2010, Malaysian GDP (Gross Domestic Product) was reported around 750 billion Ringgit and national export was reported around 64 billion Ringgit [2]. In this regard, SME's contribution to export revenue was only 8.5%. With significant untapped markets internationally, SME manufacturers and entrepreneurs in Malaysia could not help but realize the need to go internationally. With the implementation of the ASEAN Economic Community (AEC) in 2014, the doors opened up for Malaysia SMEs to embark on internationalization. Tapping into international markets continues to look promising and profitable, however it requires different skills. This is why many SMEs in the country have seemed satisfied within their comfort zones in local business where they are familiar with the terrain rather than tapping into lucrative markets elsewhere.

Hence, developing and increasing the SMEs growth via internationalization has been the focus and concern of the Malaysian government. Regarding this, a variety of agencies and ministries have facilitated and supported SMEs in internationalization [1]. According to Syed Zamberi and Siri Roland [3], although government agencies, including MITI and MATRADE, have organised various programmes to promote international business, up until now, not many SMEs have taken the challenge and gone into international trade. Realizing Malaysia is a small country, with a total population of around 30 million, our internal market is relatively small and saturated when compared with the total population of 600 million in South East Asian countries. Internationalization is a viable option to contribute to the well-being of the country. As far as the government was concerned, exports by the Malaysian SMEs were only 26% of their total output, much lower than in neighbouring countries like Taiwan, Hong Kong and the Philippines [4]. There is a high concentration of SMEs

internalization within the textiles and apparel, food and beverages, metals and metal products and wood and wood based products sectors. In order to beef-up internationalization, other SMEs need to find ways to do so. This requires concerted efforts by SMEs as well as related government agencies.

Geographically, Malaysia has its own advantages apart from being an ASEAN member, the country is sandwiched between two populous countries, China in the East and India in the West. Both of these countries are said to be poised to become super economic powers in the near future. Increasing income and purchasing power, as a result of progress in both countries, could require a greater consumption of Malaysian products. Early participation from Malaysian SMEs to tap into these markets would be beneficial.

Notwithstanding the importance of internationalization, Mahajar and Hashim [1] indicated that there are limited studies in Malaysia pertaining to internationalization and the internationalization process. But, according to Yeung [5], the internationalization of Malaysian SMEs is a new research phenomenon and indeed timely. There have been some studies on SMEs internationalization in Malaysia [6,7,8] however, the empirical evidence and contribution to theory on this topic is still lacking. Evidence from developing countries is still rather limited and remains unexplored [9] despite the growing importance of Malaysia in the global economic arena. A study on SMEs' implementation of internationalization is of paramount importance and deems a thorough study essential and urgent as Malaysia and other ASEAN members have implemented the ASEAN Economic Community (AEC) since late 2014. AEC is a platform for Malaysian SMEs to market their products to other ASEAN countries and, at the same time, gain the benefits of being partners or agents to distribute products in our domestic market. Since not many SMEs in Malaysia compete in this market, those who make an early move will reap more benefits and at the same time will gain an experience curve to better chart their international direction.

## Literature Review

**Entrepreneurship:** In this study, entrepreneurship is defined as an organizational culture of enhancing wealth through innovation and exploitation of opportunities [10] which requires entrepreneurial characteristics of risk-taking propensity [11, 12], autonomy [13, 14] and pro-activeness [15, 10]. Another definition looks at entrepreneurship as a combination of innovative,

proactive and risk-taking behaviour that is intended to create value in organisations [16].

For some, entrepreneurship is about the discovery and exploitation of opportunities [17]. Entrepreneurship tries to make a tangible contribution by creating value through creative ideas and a forward-thinking mentality [18]. According to Casson [19], the characteristics typical of successful entrepreneurs are the ability to take risks, innovativeness, knowledge on how the market functions, manufacturing know-how, marketing skills, business management skills and the ability to co-operate. For many years, researchers have identified unique characteristics of entrepreneurs – confidence, independence, being in control, risk taking and creativity.

**Internationalization:** Recent focus on the internationalization of smaller firms has resulted in a growing overlap of interest among both international businesses and entrepreneurship researchers [20, 16, 21]. The study of the internationalization process of established firms has generally been conceptualized as a stage model of increasing levels of international commitment [16].

The international expansion of small to medium sized enterprises (SMEs) continues to be a vibrant driver of economic activities [22]. The participation of SMEs in international markets enhances country-level competitiveness, generates foreign currency earnings and creates better-paying jobs, thus leading to sustainable economic growth [23, 24]. Internationalization of a business is undertaking business activities in a country other than the firm's home country [25, 26]. Further, internationalization is defined as a bi-directional, that is, inward and outward activity [27].

**Incremental Theory:** Andersson's [28] classification of international business research identifies two basic approaches - the economic and the process view. Economic view predicts that a company will choose the location for its investment that minimizes total costs. This view of international business is a broader concept than that envisaged under traditional firm internationalization theoretical models that focus specifically on the process aspects of international business development. Research on firm internationalization processes centers on the "*establishment chain*" school of thought that is also referred to as the Uppsala-model, (U-model), the Nordic school model, the incremental school model or the stages model. Incremental internationalization theory has also borrowed some ideas from the Foreign Direct Investment (FDI) research stream and mainstream economic theory.

Apart from the above mentioned approaches, another theory of internalization is called the incremental internalization theory. This theoretical framework was first developed by Johanson and Wiedersheim-Paul [29] in their study of four Swedish firms, in which they observed that when firms internationalize, they move along a series of incremental steps which they termed as an “establishment chain.” Their work was a culmination of separate research activities dating back to the 1960s along with, Aharoni [30], Perlmutter [31] and Pinney [32]. Johanson and Wiedersheim-Paul [29] identified four stages through which an internationalizing firm passes; namely 1) no regular export activities, 2) export via independent agents, 3) establishment of a foreign sales subsidiary and 4) establishment of a foreign manufacturing plant.

**International Entrepreneurship (IE):** International entrepreneurship (IE) based on Styles and Seymour’s [33] assesses the degree of creation and exchange of value through the identification and exploitation of opportunities that cross national borders.

IE is defined by Oviatt and McDougall [21] as “the discovery, enactment, evaluation and exploitation of opportunities across national borders - to create future goods and services”. It is a contextualized activity that occurs across national borders [34]. Yet, due to open door policies practised by many countries, IE is embraced and welcomed and lately boosted by ICT so that more and more small business entrepreneurs embark on internationalization. As a field of research, this process involves research into *entrepreneurship in multiple countries* (cross-country comparisons of the nature and extent of entrepreneurial activity) and research into *cross-border entrepreneurship* (international activity of small and medium-sized enterprises (SMEs) and new ventures) [35, 21].

## METHODOLOGY

Prior to the interviews, a set of interview protocol was developed based on literature review as well as advice from the experts and practitioners. The protocol was used to provide the base line for the research questions. Having an interview protocol was indeed a must, in order to ensure reliability and consistency of questions to all respondents. The selection of participants was based on a convenient sampling, which was a sampling frame from MATRADE of the State of Kelantan. This was used to determine SMEs that were involved in the study.

Once the list was available, they were carefully screened to fulfil the requirements of the study, which were; first, be in operation for more than 3 years and, second, have at least 5 employees. Once interviews with the owner-entrepreneurs were conducted at their premises in mid 2016, the interviews that were recorded, at the entrepreneurs’ consent were transcribed verbatim. Atlas software was used to facilitate the coding of interview transcripts. Interview data was analyzed into codes and themes. Then all themes were analyzed to see the pattern of coherence of the data.

## RESULTS

Two companies engaged in internalization, which operate their businesses in the state of Kelantan, Malaysia agreed to participate in this study. Both companies have conducted an early stage of internalization – exporting. Based on two pilot interviews conducted, that explored the questions what, who, where, when and how; pertaining to internalization, the researchers found some similar keywords and themes that can be summed up as the process that SMEs went through during internationalization. Among the similar themes were networking, capability, opportunity and well-versed international procedures. Each will be discussed in turn:

**Networking:** Both entrepreneurs said that networking with all contacts; with individuals, other firms, governments and government support systems, forwarding and exporting agents, as well as Customs, facilitate internationalization. Unlike others who only deal with local activities, IE have wider networking. They, unlike local counterparts, get out of their comfort zone to enable themselves to internationalize.

*Entrepreneur 1 said: I’ll inform MATRADE, the company that (is) required to sell the products will inform me or will notify me. I will supply the stuff. So it will (have a) connection between Malaysian companies and companies in foreign countries. Yes, we need to study the market...what is the trend...we have to know. That is why we have to go through MATRADE because every MATRADE branch has its function. The function is to act as a representative. It knows how the culture is. It is a kind of assistant to us. So when we ask MATRADE how is Myanmar, MATRADE has an office there.*

*Entrepreneur 2: More to PR (public relation) networking when we have reached that stage, first we have to have a good network with MITI and relevant agencies such as MATRADE...or other MOA agencies, we need to have networking.*

#### *Capability (Knowledgeable)*

SMEs that aspire to internationalize show adequate international knowledge prior to internalization. They know the cultures and rules of trading in host countries. These two prerequisites were required to make appropriate and wise decisions. Their experiences and international exposure provided all sorts of knowledge which was later turned into the capability to deal with international business.

*Entrepreneur 1: We have to embrace the culture, the chengal wood. It is a Malaysian wood...so we know this is our strong point. So for...the quality is different. Thus, for the chengal wood demand, we supply them. That is why we need to know our speciality, we export that, our quality to Asia.*

*Entrepreneur 2: When we go abroad, we bring our product along, (because) we want to know their comment, haa...from there on we may do as they wish...so like me, I make serundeng (a type of dried beef), but the thing with serundeng...what is it? Haa, how do you explain it? Thankfully, there are food(s) which are similar in their country so we can adjust the taste and other things.*

**Opportunity:** There are great possibilities for Malaysian small firms which are already engaged in domestic business to embark on international business. Entrepreneurs see the demand of their products and services outside of our country. Given the right assistance, in terms of product development and financial assistance, the entrepreneurs interviewed, those who are already engaged in domestic business, stated that they would engage in international business as long as there was demand for their products or services overseas. After all, they cannot depend entirely on the domestic market for their firms' future. The overseas markets look very promising as long as they are creative enough to modify or make some modifications to their products or services accordingly.

*Entrepreneur 1: Another thing is we should always be ready to take on challenges. For instance, as human(s), we prefer to live comfortably, Right? So, we must always modify our business, we should not be complacent. The world has changed. Different culture. Different identity. As an entrepreneur we have to be creative. Creativity will benefit us. Creativity will boost the competition.*

*Entrepreneur 2: The first reason for me is market expansion. I looked at the difference in marketing approaches. Actually, others have been making serundeng for 4 generations, for many years, (so) I am considered as a new player. The normal market is saturated because there are already many players in the market. I looked at the marketing approach; I mean, ok we upgrade our factory, we have the halal certificate ...so we(now) go to different markets.*

**Procedures in Internalization:** The procedures for export entail a lot of work including clerical work, like filling out the many government forms. This is not easy for SMEs, many would probably hire consultants or other agencies. In order to encourage local SMEs to be successful in international business, the government must play an active role in promoting, assisting and advising Malaysian firms in terms of the knowledge of internalization procedures, as well as the means to facilitate importing and exporting.

*Entrepreneur 1: Yes, we need to study the market. What is the trend? We need to know. That is why we need to go through MATRADE. Because every MATRADE branch has its function. They functioned as the representative. They (are) kind of assisting us. So, we asked MATRADE about a country, how it is. MATRADE have terminals...they are good. Which means there are many terminals. For example, MATRADE Singapore, MATRADE India, Indonesia...they will explain (the procedures at each terminal). They have representatives that will explain about the Malaysian culture, what is the language. They will explain everything.*

*Entrepreneur 2: Ones have to know how to look for the opportunity and do a research beforehand. Do not go without knowing anything. Next, which is the target country we wish to go (to), the target market that we wish to take, as well as procedures we need*

*to comply? We need to do some study on these matters, sometimes. To get the (best) information, we can just contact the MATRADE offices abroad.*

## CONCLUSION

The findings of this study are instructive, showing the early process or stage of internalization amongst SMEs and the requirements needed to be fulfilled by entrepreneurs and their companies. In line with incremental theory, in this study, entrepreneurs run international businesses by exporting their products to international markets. Among the important themes extracted from the interviews were international networking, knowledge of international business, opportunities identification, as well as, know-how of Custom's rules and procedures. All of this information is crucial for those who want to embark on internalization. With better exposure to the international market, know-how and networking, more and more Malaysian SMEs will engage internationally and successfully tap into potential markets overseas. Internalization provides a new platform for Malaysian SMEs to be more competitive in the international market.

## REFERENCES

1. Mahajar, A.J. and M.K. Hashim, 2001. Exporting problems of Malaysian SMEs: A recent survey. *Asian Economic Review*, 43(3): 384-394.
2. Bank Negara Malaysia., 2011. Economic Developments in 2011. Bank Negara Malaysia Annual Report 2011.
3. Ahmad Syed Zamberi and Siri Roland Xavier., 2010. Stress and coping styles of entrepreneurs: A Malaysian survey. *International Journal of Entrepreneurship*, 14: 25.
4. SMIDEC., 2002. SMI Development Plan (2001-2005) SMIDP. Kuala Lumpur, Malaysia: Percetakan Nasional Malaysia Berhad.
5. Yeung, H.W.C., 2004. International entrepreneurship and Chinese business research. In L. P. Dana (Ed.). *Handbook of Research on International Entrepreneurship*. Cheltenham, UK: Edward Edgar.
6. Hashim, M.K. and R. Hassan, 2008. Internationalisation of SMEs: Options, incentives, problems and business strategy. *Malaysian Management Review*, 43(1): 63-76.
7. Zain, M. and S.I. Ng, 2006. The impacts of network relationships on SMEs internationalization process. *Thunderbird International Business Review*, 48(2): 183.
8. Andersson, S., M. Eriksson and L. Lundmark, 2006. Internationalisation in Malaysian furniture firms: gradual or rapid internationalisation?. *International Journal of Globalisation and Small Business*, 1(3): 220-243.
9. Mat Diah, N., M. Ismail, S. Ahmad and M. Md Dahari, 2010. Usability testing for educational computer game using observation method. *IEEE Xplore Conference Proceeding, Shah Alam, 17-18 Mac 2010*, pp: 157-161.
10. Nasution, H.N., F.T. Mavondo, M.J. Matanda and N.O. Ndubisi, 2011. Entrepreneurship: Its relationship with market orientation and learning orientation and as antecedents to innovation and customer value. *Industrial Marketing Management*, 40(3): 336-345.
11. McClelland, D.C., 1961. *The Achieving Society*. Princeton, NJ: Van Nostrand.
12. Ndubisi, N.O., O.K. Gupta and G.C. Ndubisi, 2005. The moguls' model of computing: integrating the moderating impact of users' persona into the technology acceptance model. *Journal of Global Information Technology Management*, 8(1): 27-47.
13. Dunkelberg, W.C. and A.C. Cooper, 1982. Entrepreneurial typologies. In K. H. Vesper, (Ed.). *Frontiers of Entrepreneurship Research*. Babson Centre for Entrepreneurial Studies, pp: 1-15. Wellesley, MA.
14. Hornaday, J. A. and J. Aboud, 1971. Characteristics of successful entrepreneurs. *Personnel Psychology*, 24: 141-53.
15. Echols, A.E. and C.P. Neck, 1998. The impact of behaviours and structure on corporate entrepreneurial success. *Journal of Managerial Psychology*, 13(1/2): 38-46.
16. McDougall, P.P. and B. M. Oviatt, 2000. International entrepreneurship: the intersection of two research paths. *Academy of management Journal*, 43(5): 902-906.
17. Shane, S. and S. Venkataraman, 2000. The promise of entrepreneurship as a field of research. *Academy of management review*, 25(1): 217-226.
18. Engel, J.S. and D.J. Teece, 2012. John Freeman: entrepreneurship and innovation defined—a personal remembrance. *Industrial and Corporate Change*, 21(1): 245-248.

19. Casson, M., 1982. *The Entrepreneur: an Economic Theory*. Martin Robertson: Oxford.
20. Coviello, N. and M. Jones, 2004. Methodological issues in international entrepreneurship research. *Journal of Business Venturing*, 19(4): 485-508.
21. Oviatt, B.M. and P.P. McDougall, 2005. Defining international entrepreneurship and modeling the speed of internationalization. *Entrepreneurship Theory and Practice*, 29(5): 537-553.
22. Leonidou, L.C. and C.S. Katsikeas, 2010. Integrative assessment of exporting research articles in business journals during the period 1960–2007. *Journal of Business Research*, 63(8): 879-887.
23. Abor, J., 2011. Do export status and export intensity increase firm performance?. *Thunderbird International Business Review*, 53: 9-18.
24. Czinkota, M.R., 2009. Export promotion. In M.R. Czinkota, I. Ronkainen and M. Kotabe (Eds.). *Emerging trends, threats and opportunities in international marketing: What executives need to know*, pp: 59-70. New York, NY: Business Expert Press.
25. Johanson, J. and J.E. Vahlne, 1990. The mechanism of internationalization. *International Marketing Review*, 7(4): 11-24.
26. McCole, P., E. Ramsey and J. Williams, 2010. Trust considerations on attitudes towards online purchasing: the moderating effect of privacy and security concerns. *Journal of Business Research*, 63(9/10): 1018-1024.
27. Freeman, S., 2013. Strategic re-structuring by born-globals using outward and inward-oriented activity. *International Marketing Review*, 30(2): 156-182.
28. Andersson, S., 2000. The internationalization of the firm from an entrepreneurial perspective. *International Studies of Management and Organization*, 30(1): 63-93.
29. Johanson, J. and F. Wiedersheim-Paul, 1975. The internationalization of the firm—four Swedish cases. *Journal of Management Studies*, 12(3): 305-22.
30. Aharoni, Y., 1966. *The foreign investment decision process*. Boston, MA: Harvard Business School.
31. Perlmutter, H., 1969. The tortuous evolution of the multinational corporation. *The Columbia Journal of World Business*, pp: 9-18.
32. Pinney., 1970. *Process of commitment to foreign trade*. Indiana Department of Commerce.
33. Styles, C. and R.G. Seymour, 2006. Opportunities for marketing researchers in international entrepreneurship. *International Marketing Review*, 23(2): 126-45.
34. Fletcher, D., 2004. International entrepreneurship and the small business. *Entrepreneurship and Regional Development*, 16(4): 289-305.
35. Lu, J.W. and P.W. Beamish, 2001. The Internationalisation and Performance of SMEs. *Strategic Management Journal*, 22(6/7): 565-586.