

INTERNAL, EXTERNAL, NETWORKING FACTORS AND CHALLENGES OF SMALL MEDIUM ENTERPRISE (SMES) INTERNATIONALIZATION

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Abstract

Internationalization procedure of small to medium-sized enterprises (SMEs) is part of the increasing economy. The study aims to identify relationships between the factors influencing the SMEs to internationalize and identifying the most impactful factor that affects the internationalization of SMEs. The factors affecting internationalization of SMEs identified were external, internal, networking as well as barriers and challenges. The study focusses on SMEs in the service sector in Klang Valley, Malaysia. The methods used to conduct the survey is by distributing the questionnaire through email. There are 100 selected SMEs in the service sector which are listed in SME Corp Malaysia website and MATRADE website. Regardless of whether the SME's are practising international business or not, they will still be one of the potential respondents. The data were examined and obtained using the statistical software SPSS. The analysis used is reliability analysis, correlation analysis and regression analysis to meet the research objectives. The expected outcome from this research is to analyze the factors that will impact the internationalization of SMEs. The results of the analysis show that all the variables have a low positive correlation. The most influential factors that effects SMEs decision to go international are barriers and challenges.

Keywords: *small medium enterprise, internationalization, internal factor, external factor, networking factor*

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Introduction

Internationalization of firms has becoming crucial strategy to expand. Sooner or later firms will have to compete internationally. This does not exclude small and medium enterprises (SMEs). Small and medium enterprise (SMEs) in Malaysia played an important role in the economy. The patterns of internationalization have affected SMEs in a few ways; it effects on networking, the authorities that facilitates and commercialize the enterprise to internationalize (Senik, et al. 2014). In order to expand and reaping profit internationally, there are also challenges faced by SMEs expansion. SMEs require education, experience and motivation of people to be engaged in commercial enterprise techniques with a view to result in commercial enterprise performance. SMEs expanded their internationalization due to the technological development, the deregulation of markets, the liberalization of world trade and the emergence of regional economic cooperation agreements. Due to this, SMEs exploit the opportunities in the foreign market and learn from their global ventures (Sani, Mohamed Thaheer & Mohd Zain (2018). When the enterprise grows, numerous issues and troubles arise because of factors such as technological development, which requires some changes in strategies, systems and structures (Muda & Rahman, 2016).

Besides that, regardless of the growing importance of SME's internationalization, there may be still no better understanding of the worldwide business models that they follow (Pinho, Martins & Soares, 2018). These authors emphasize three major factors the industry to which SMEs have a place, the level of home market advancement and the universal experience.

Small businesses have constrained sources and competencies, and consequently the internationalization technique of these corporations differs extensively from that of installed big groups with huge aid endowments (Pinho, Martins & Soares, 2018). Compensating for the missing of firm-degree assets, research recognized individual-specific assets, together with knowledge, experience, or personal networks as vital to sense and capture new possibilities abroad (Pinho, Martins & Soares, 2018). According to (Senik, et al. 2014), patterns of internationalization is one the problem, effect of networking on SME internationalization, networking and internationalization of SMEs in rising economies, and authorities facilitates and commercial enterprise method for SME internationalization. The challenges faced by the usage of SMEs during their commercial enterprise life require education, experience and motivation of people to be engaged in commercial enterprise techniques with a view to result in commercial enterprise performance. When the enterprise grows, numerous issues and troubles arise because of factors such as technological development, which requires some changes in strategies, systems and structures (Salwa & Mara, 2016). Hence the study would like to identify the factors; internal, external, networking and barriers and challenges that affect the SMEs to go international.

Senik, et al. (2010), Internationalization as the process of adapting the firms' operations (the methodology, structure, and assets) to the worldwide condition. Internationalization may also be defined as identifying and opening new market opportunities universally and exploiting available assets from origin of internationalization are vital to the achievement of new pursuits when contending in the worldwide market space. Therefore, it is important to assess critically how the marketing capability of SME's influences their ability to internationalize and their innovation performance. The quick development of the worldwide information economy requires firms in different businesses and sizes to be implanted with intellectual capital in guaranteeing maintainability and aggressiveness. As accordance to Senik, et al. (2010), a firm just takes part in worldwide exercises if three conditions are met: ownership variables of a firm (O), location area elements of a market (L), and there are internalization points of interest of coordinating exchanges inside the firm (I). One of the internationalization process and stage model is resource-based view. A useful resource-based totally explains the significance of inner drivers along with tangible and intangible sources for SMEs internationalization. Internationalization learning is familiarity with the association's ability and assets for taking part in global tasks as it works as a vault and is gathered after some time, as cited by (Syed, 2014). He, S (2011) stresses that SME internationalization is characterized by either the change of disposition towards business exercises in another nation or real business exercises in different nation. Bernadine (2015) characterized internationalization exercises of SME into different classification. The classification is 1) coordinate trading; 2) coordinate importing; 3) investment abroad; 4) being subcontractors to foreign endeavors; 5) having outside subcontractors; and 6) participation with outside endeavors under joint ventures, non-equity organizations together, permitting, and diversifying. According to Pinho, Martins & Soares (2018), there are three major factors of SME's understanding of international business models they follow which are the industry to which SMEs belong, the level of domestic market development and the international experience of the key decision maker.

External factor is the factor outside from the firm, thus the environmental characteristics such as political, economic and social aspect of that country are also parts of the decision to go for internationalization. It will be so easy for the firm when dealing with the host countries that are close with the economic distance. Furthermore, there are many opportunities for SMEs to internationalization can be secured when increasing the economic integration or free trade and investment increased (Sani, Mohamed Thaheer & Mohd Zain (2018). External factors affecting SME internationalization can be labelled into marketplace environment, governmental traits, environmental traits, and aggressive surroundings. According to (Senik, et al. 2014), market place environment refers to the measure of the market, sales potential, accessibility and quality of infrastructure or facilities, and the level of internationalization in residential and foreign markets and these are influenced by the monetary condition. According to Senik et al (2014) explain the government traits or characteristics,

for example, such as regulations, export policy, procedural customs, endowments and incentives additionally influence the internationalization procedure.

In the meantime, environmental traits (Senik et al, 2014; Jones & Coviello, 2005) within the shape of political, monetary, social, technical, and legal necessities at domestic and within the target country additionally affect internationalization process. Market environmental can be categorized in the size of the market, sales potential, availability and the degree of internationalization in domestic and foreign market (Jones & Coviello, 2005). Government characteristics act as an external factor, as an example The Malaysian government strongly encourages the development of SMEs to create a large pool of authentic medium-scale entrepreneurs who can compete in the global market. Fariza (2015) state government traits helps to give open doors for value added employment creation salary dispersion, preparing and expertise improvement, and which finish the inventory network joins with huge enterprises and multinationals. Moreover, the government provided various support in the form of financial assistance, tax incentives, business advisory assistance and trainings providing infrastructure facilities, advisory services, market access and other support programs through the establishment of the Small Medium Industrial Development Centre (SMIDEC) and the Small and Medium Enterprise Corporation Malaysia (SME Corp. Malaysia).

Internal factor incorporates the firm characteristics, capabilities, assets, entrepreneurial orientation and key personnel, unique resources, sound finance, skills and experienced employees which are considered a main point for successful international adjustment (Senik et al. 2014; Barney, 1991 and 2001; Madsen, Ramussen and Servais, 1999; Sani, et al. 2018). Senik et al (2014) elaborated firm characteristics, for example, measure influences internationalization conduct while firm age impacts the pace or speed of an association's internationalization. Next, the firm's capabilities incorporate the knowledge-based such as the language possession, management understanding and training programs, resource-based and situational approaches, and strategic planning. Firm assets incorporate physical, organizational, relational and network resources. Entrepreneurs have individual assets that assistance them perceive new openings and assemble assets for new pursuits. The more assets the firm has, the more probable it will take part in universal exercises. Shepherd, Richard & Ronicah (2013) identified the key personnel which comprises of the personnel experience, attitude, perceptions. Meanwhile, entrepreneurial orientation involves how a firm adjusts its procedure, rehearses and managerial exercises towards new markets (Senik et al. 2014). Finally, key personnel may incorporate proprietors, administrators, leaders or authors of the organizations. Variables that impact their internationalization procedure are their philosophical view, social capital, human capital, global introduction and individual skills. Firms follow up based on their market knowledge, also, this market knowledge diffusion demonstrates an effect on firm's capacity to exploit a new market opening specifically and advancement performance more widely. According to Muda & Rahman (2016) state that the start-up period requires the owner's understanding, level of education and high inspiration for survival and development. It is critical for proprietors or chiefs to have human capital credits keeping in mind the end goal to pull in potential clients and marketing strategies because of their new entry in the business sectors. Supported by Etemad (1999) where owner top managers need to have international exposure and knowledge, global vision, experience and education. Patmore & Haddoud (2015) cited a finding that managerial learning, experience background and business achievement prompted expanded information about business sectors and connections, subsequently promising further foreign market venture.

Networks are influential channels via which corporations can obtain their goals and overcome the limitations they have with the aid of co-running with others. It is far verified that SMEs actively community; now organizations ought to recognize the way to get the entire potential of the relationships in the networks (Leevi, 2015). Networks basically assist with the ease and speed of entering foreign markets. The SME builds up the connections expected to encourage its internationalization procedure. Connections and systems affect the level of risk caused by entering an abroad market and thus, assist in the association's internationalization (Sani et al., 2018). Moreover, these authors stated that organize connections can give a decent variety of information, learning, and experience that encourage the abuse of various markets, and giving a chance to acknowledgment in

worldwide markets. Networking through customers, contenders, partners, government, government organizations, friends and families influence the choice of nations to enter and mode to take (Senik et al. 2014).

Besides that, as cited by (Fariza, 2015), stated that networking is an effective apparatus for the business visionary and network analysis has been an effective system for global enterprise researchers. Firms utilize their systems to access assets, to enhance their key positions, to control exchange costs, to learn new skills, to pick up authenticity and to adapt decidedly to fast innovative changes. According to Olena, (2016) that domestic partnership can be useful for additionally arrange interest abroad, as they give access to accomplices' network and utilization of existing accomplice as a perspective. She also added, firms frequently acquire this information through their network ties (wholesalers and agents). In addition, Olena (2016) cited that the organizations consider and pinpoint the significance of participating in network systems for their global market exercises. In order to recognize an opportunity, firms require particular abilities, which can be collected through collaboration with business partners in worldwide systems and outside business sectors can be seen as frameworks of long-haul business connections among clients and suppliers. In these connections, firms adjust their activities with the goal that commonality and interdependence rise. Internationalized organization situated inside a foreign network exploits direct association with universal accomplices. Being system arranged and recognizing the parts and qualities of every performing player inside the network adds to organization's comprehension of conceivable difficulties and open doors for its activities in target markets. In addition, by having an entrenched position in a remote system permits the internationalized firm to create connections that can bring about further associations with different player. Because of both inner and outer constraints, SMEs should utilize association network or strategic alliances to defeat asset and ability inadequacies and to spread investment costs and related dangers among accomplices.

According to Senik et al. (2014), inside the East Asia locale, the fundamental drawbacks are the absence of resources (e.g., finance, technological innovation, gifted worker, access to business sectors and data), lack economies of scale and degree, high exchange costs, high market structures, and exceptional rivalry against bigger firms. There are some inside and outside hindrances which make genuine obstacles for both internationalization and successful activities in universal business. These obstructions are basically identified with administration and incorporate absence of vision, fear of losing control, insufficient of information, lack of resources, lack of a strength and solid in-home market. Moreover, cited from (Muda & Rahman, 2016), the difficulties stood up to by SMEs all through their business life require training, knowledge and motivation of people to be occupied with business methodologies that will prompt business performance. In addition, as cited by (Olena, 2016), lack of knowledge about foreign markets and activities is the fundamental deterrent to internationalization, as information can basically be created through understanding from past tasks in those business sectors. As cited in Patmore & Haddoud (2015), SME will be not able pick up a worldwide presence without the monetary capacity to ingest any money related misfortunes brought about doing business abroad. An OECD (2009) report likewise recognized lack of working cash-flow to fund fares to be the best positioned hindrance by SMEs. Mujdelen, Baris & Sinem, (2014) cited that the external intensity of the universal market affects the advance of the internationalization of firms. While rivalry can happen through firms that are normal contenders (rivals) in a market, they may likewise originate from inside a company's own particular network. Messina (2015) stated constrained home government bolster and additionally motivating forces for SME internationalization, and horrible fare directions, have been distinguished as serious barrier to internationalization. Besides that, Messina (2015) cited that the attributes of the host country such as poor market framework and high duties, may all constitute noteworthy barriers to SME remote market section. Export marketplace attractiveness as a barrier to internationalization consists of such problems as trouble in accumulating payments from overseas customers, trouble supplying after sales provider, high expenses associated with selling abroad, problem quoting expenses with fluctuating exchange rates and high transportation costs to ship products to foreign markets (Julian & Ahmed, 2012). Finally, another barrier that SME's always face when doing internationalization are cultural and language.

As cited by (Calza, Aliane & Cannavale, 2013), connections and information exchange are firmly influenced by culture. When entering new markets, firms meet with individuals originating from various settings. Diverse qualities and social elements influence the way individuals communicate from multiple points of view. Hence, firms ought to find out about the nearby culture, and receive practices, which can fit with the current standards of the host market.

The more prominent the separation between the home and host culture, the more noteworthy is the need to create social abilities. In terms of language, language differences are an obstruction to correspondence and a wellspring of misconception that can influence the level of trust in a relationship since they increment vulnerability and doubt, and lessen credibility (Dasi & Pedersen, 2016).

Following is the established frame of thought adapted to proposed conceptual framework is visualized in Figure 1.0 with the objectives of examining the influence of internal, external networking factors and challenges of (SMEs) internationalization.

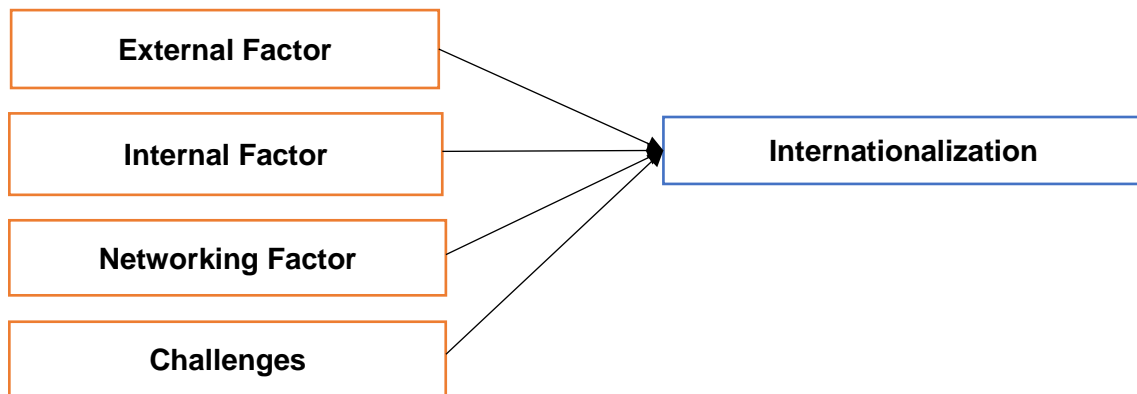


Figure 1.0 Conceptual framework adopted from (Senik et al. 2014).

Methods

Purposive sampling was used in the study. SME's in Malaysia are from those who are most readily and expert or conveniently available that is the management level managers. The data are collected via questionnaires distributed to the managers of SME companies. Researcher took one week in accumulating all the data wanted. This technique is the most ideal approach to get essential information data effectively. The study being carried out in Klang Valley because more than half of the total SMEs in Malaysia are based in Klang Valley. The SME's must be located within Wilayah Persekutuan and Selangor and entitled for the SME companies according to the number of employees and the firm's annual turnover. Regardless the SME's are practicing international business or not, they will still be one of the potential respondents. Around 100 of surveys distributed to the SME's throughout Klang Valley. The researcher collected all the 100 of surveys and the response rate is 100%. The method used to conduct the survey is by distributing the questionnaire through blast emails to all the companies listed under SME Corp website. Correlation coefficient were used to analyze the data to identify the relationship between the factors influenced with the decision to go international. Furthermore, multiple regressions were used to assess the most influential factors that will affect the decision to go international. The information on SME's were gathered from the official website of SME Corp Malaysia Website. Questionnaire were adopted from (Senik et al. 2014).

'Services' refer to all services including distributive trade; hotels and restaurants; business, professional and ICT services; private education and health; entertainment; financial intermediation; and manufacturing related services such as research and development (R&D), logistics, warehouse, engineering etc. These SME's are referring to only pure business entities registered with the following bodies listed in the Companies Commission of Malaysia (SSM) either under the Registration of Business Act (1956) or Registration of Company Act (1965) or Limited Liability Partnerships (LLP) Act 2012.

Results and Discussion

Table 1: Reliability Statistics

Variables	Cronbach's Alpha	(N) Of Items	Strength of Association
Internationalization	.626	8	Moderate
External Factor	.895	8	Very Good
Internal Factor	.830	9	Very Good
Networking	.927	9	Excellent
Challenges	.781	10	Good

Referring to Rule of Thumb for Cronbach's Alpha Coefficient Size by Hair et al., (2010), interpreted that 0.7 and above is considered good whereas below than 0.60 is considered as poor strength of association. Based on Table 1, shows the result of reliability analysis which indicates for internationalization, external factor, internal factor, networking factor and also the challenges faced by SMEs in pursuing internationalization. From the table, it indicates that Cronbach's Alpha for four variables are high and 1 variable are moderate. All variables were found internally reliable where the highest is networking factor with .927. According to Hair et al., (2010) rule of thumb, when the Cronbach's alpha coefficients greater than 0.9 the strength of association consider as excellent. It then followed by the external factor and internal factor which the Cronbach's alpha was .895 and .830 where it indicates for 8 items and 9 items respectively. It is considered as very good. Cronbach's alpha .781 belong to challenges of SMEs which indicates as good. Cronbach's alpha for internationalization is .626 which is considered as moderate strength of associations. Based on the results, its means that, all the questions from the questionnaires were acceptable.

Table 2: Pearson Correlation

		Internationalization	External Factor	Internal Factor	Networking	Challenges
Internationalization	Pearson Correlation	1	0.349**	0.339**	0.448**	0.470**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	100	100	100	100	100

** . Correlation is significant at the 0.01 level (1-tailed).

Based on Table 2 above, the analysis was used to measure the strength and the direction that exists between the two variables. It shows the summary of the relationship between all the variables. This table illustrates which variables that have correlation on the dependent variables, which is internationalization. This method is to measure the strength of the association between the two variables.

From the table, the results show that the external factor ($r=0.349$, $p\text{-value} = .000$), it indicates that external factors have low positive correlation with internationalization. Internal factor has $r=0.339$ at $p\text{-value}=.000$, where it also indicates that it has low positive correlation with internationalization of SMEs. The networking factor and challenges faced by SMEs shows that ($r=0.448$ at $p\text{-value}=.000$) and ($r=0.470$ at $p\text{-value}=.000$) respectively. Both factors also indicate low positive correlation with internationalization.

Table 3: Model Summary

R	R Square	Adjusted R Square	Standard Error of the Estimate
.517 ^a	.267	.236	3.66255

Based on Table 3, R^2 shows the proportion variance within the dependent variable that is explained with the aid of the variant within the independent variables. The R^2 of 0.267 implies that each one the independent variables provide an explanation for 26.7% of the variance in dependent variable. Whereas, another 73.3% of the variance in the dependent variable is not explained by the independent variables in this study. This indicates that there are other independent variables which are not included in this study and could further strengthen the regression equation.

Table 4: ANOVA

Model	Sum of Square	F	Significant
Regression	463.834	8.644	.000
Residual	1274.356		
Total	1738.190		

Based on Table 4 ANOVA, the F value is where it predicts respond of the sample. The minimum value is 1 but the study recorded F at 8.644, which predicts to be a good fit model for forecasting the sample.

Table 5: Multiple Regression

	Standardized Coefficient Beta (B)	Significant
External Factor	.062	.625
Internal Factor	-.115	.408
Networking Factor	.270	.058
Barriers & Challenges Factor	.348	.005

Results in Table 5 represents the best predictions of a dependent variable from several independent variables. The results are used when independent variables are correlated with one another and with the dependent variable. Based on the results, it shows that the significant predictor is the barriers and challenges ($B=.348$, $p\text{-value}=.005$). Therefore, the barriers and challenges faced by SMEs to internationalization is the influential factor for SME to go abroad. The factor that has second highest beta weight is the networking factor. The beta weight is 0.270 and P value is 0.058, $P>0.05$ in which it is not significant P value. Therefore, the networking factor is not significantly in this study.

The internal factor has the beta weight of -0.115 and the P value is 0.408, $P>0.05$ in which it explained that the internal factor is not significant with the dependent variable. Finally, the factor that has the least beta weight in this study is the external factor. It has 0.062 and the P value is 0.625, $P>0.05$ in which it explained that the external factor is not significant with the dependent variable.

Discussion

Based on the analysis result, it showed that the all the four factors; internal, external, networking and barriers and challenges and SME's decision to go international are low correlation; definite but small relationship between those factors and SME's decision to go international. According to previous

findings, the external factor was giving less impact on the SME's internationalization. These findings identified that the SME need to gain a strong understanding of how external factors can influence their business when going international. According to Senik et al. (2010), the internal factor or firm factor was giving the less impact on the SME's internationalization. Which also aligned with this study, shows that internal factor is not the impactful factor that motivates the SMEs to go international. According to Sani, Mohamed Thaheer & Mohd Zain (2018), connections with partners with local knowledge is an effective networking which brings information regarding the targeted foreign market. It provides intermediaries from foreign market that foster market entry. Small firms able to use the connections with the foreign market which are the large firm to reduce cost and risks and reward are shared together. The scholars mention that networking also helps SMEs to expose and expand to international market through an accumulation of institutional, business and internationalization knowledge. It kindly facilitates the SMEs to be cautious of the current rules and regulations. Other than that, it helps the SMEs to gather knowledge about the foreign market. However, Senik et al. (2010); Sani, Mohamed Thaheer & Mohd Zain (2018) supports that the networking or relationships were perceived the most vital influences at the internationalization process. According to Senik et al. (2014), the handling of barriers and challenges impacting the emerging markets' SMEs must bear in mind these factors to smooth their internationalization process. As shows in the results, barriers and challenges has become the crucial factor that lead to SMEs decision to go international. It shows that, SMEs need to be aware on the barriers and challenges that they might face in order to go international.

Conclusion

Overall, the four variables; external factors, internal factors, networking and barriers and challenges do have relationship with SMEs decision to internationalization. In the pursuit to find the most influential factors regression analysis was used and the analysis proved that barriers and challenges are the most impactful drivers that contribute to the SMEs decision to internationalization. Firms are encouraged to have strength in terms of its unique resources (Senik et al.,2014), sound finances (Patmore & Haddoud (2015), knowledge about the foreign market and activities (Olena, 2016) and not to forget they have to be sound in the foreign culture and language (Calza, Aliane & Cannavale, 2013; Dasi & Pedersen, 2016) if they would like to decide to start going international.

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