

# Exploring Determinants of Internationalization Among Small And Medium Enterprises From An Emerging Markets: A New Conceptual Lens

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## **ABSTRACT**

*The past two decades have seen a sharp increase in academic studies and public policy research concerned with the internationalization of small and medium enterprises (SMEs). From this perspective, it is the influence of organizational and environmental characteristics on the internationalization process that have been the focus of scholars. Nevertheless, little is yet known of the internationalization determinants of SMEs in developing countries, and a lack of conceptual evidence in the literature provides strong ground for this research. This study fills the void by documenting the relationships between organizational and environmental characteristics specifically, entrepreneurial orientation, global mindset, network relationships and government support and internationalization. The study is expected to make a valuable contribution to the knowledge of SME internationalization in developing countries, especially in the context that relates internationalization to organizational and environmental characteristics. It also has implications in the form of best practices for Malaysian SMEs. Managers should be aware of the complexities of internationalization and the necessity to examine various aspects of SMEs' internationalization frequently. Skills, competencies, and management know-how are not only crucial traits for entrepreneurs to develop to succeed in internationalization, but they are also critical to a company's advantageous positioning in the global market. At the same time, it can provide directions for the government and policy-makers in their effort to develop policies and programs for the betterment of this particular business community.*

**Keywords:** *Employees Experience, Digital Transformation, Digital Employees Experience*

## 1.0 Introduction

International Entrepreneurship creates a connection between International Business and Entrepreneurship, leading to a new and complementary lens of internationalization phenomena. This perspective is positioned around the opportunity construct, as rooted in international growth and as an accompaniment to the liability of foreignness. It is also focused on the role of decision makers and their cognition, as a complement to organization-level resources and capabilities (Saad, 2014; Zucchella, 2021). As such, this present study aims to explore these issues and looking in advance for new research challenges.

International Entrepreneurship can be considered as the “product” of an era of globalization, whereby technologies and trade liberalization leads the way to faster and earlier internationalization of firms. By the same token, International Business has been the “product” of the post-war era of economic recovery and multinationalization (Zucchella, 2021). The present argument directed this paper to extensively examines how international entrepreneurship can contribute abundantly to a new realism, whereby barriers related to internationalization are rising, the digitalization of economic activities is increasing, and uncertainty rules economic perspectives. These contributions epitomize milestones in the development of International Entrepreneurship and the significance for International Business studies.

The study of the phenomena of internationalization is discussed along with three levels of analysis, enterprising individuals, entrepreneurial organizations and the inter-organizational level. International Entrepreneurship gives more attention to the role of individuals as key players in entrepreneurial internationalization. Subsequently, International Business studies concentrate more on the firm level and largely ignore the individual and small group level of analysis (McDougall et al., 1994). In addition, the last decades have seen increasing attention to focus also on the individual level in the international entrepreneurship study (Gartner et al., 1994; Saad, 2014). The individual level of analysis calls upon a better adoption of behavioural and cognitive sciences to further understand internationalization decisions and processes (Coviello et al., 2017). Thus, research on International Entrepreneurship opened an entirely new direction by bringing the entrepreneur to the centre of the stage. The study of international new ventures comprised of the initiation phase and the entrepreneurs’ orientation, with its role in driving early and

fast international growth.

Globalization of the world economy has resulted in speedy growth and increased interest in international entrepreneurship over the past decade (Coviello et al., 2011). Subsequently, scholars, business people and governments have come to view international entrepreneurship as an important resource for improving the performance of companies and economies, as found by various international entrepreneurship studies. Most of these studies utilize organizational characteristics, environmental factors and firm strategies to explain factors that determine the internationalization of small and medium enterprises (Kiss et al., 2012; Saad, 2014).

The efforts of various scholars to design a well-grounded framework to better understand the nature and effect of international entrepreneurship has, however, largely concentrated on the application of various theoretical perspectives. In essence, they explained this phenomenon by disproving the applicability of traditional frameworks (Buttriss and Wilkinson, 2006; Callaway, 2004). Moreover, the field of international entrepreneurship is fragmented, inconsistent and lacks common theoretical integration, thus resulting in rather uncertain progress in this field (Coombs et al., 2009; Jones et al., 2011; Keupp and Gassmann, 2009). Despite being insightful and informative, past research has also raised questions about its overall value due to the utilization of different theoretical and methodological traditions. Furthermore, prior research has also lacked a unified framework that connects the antecedents of internationalization pursued by new ventures and established companies (Jones et al., 2011; McDougall and Oviatt, 2000). This area remains largely neglected, thus presenting a major gap in developing a general framework for understanding international entrepreneurship (Saad, 2014).

Despite the progress made in strengthening international entrepreneurship research, important issues remain unresolved due to research limitations or shortcomings (Banalieva and Sarathy, 2011; Zahra, 2005). For example, most studies have focused on relatively young high technology industries located in developed countries with little emphasis on traditional industries (Coviello et al., 2011; Senik et al., 2010). While knowledge on international entrepreneurship in emerging economies is limited (Kiss et al., 2012; Saad, 2014).

Most studies have presumed that international entrepreneurship is indicated by simply measuring a firm's international sales revenues (Hisrich et al., 1996; McDougall and Oviatt, 1996). Past studies also made conclusions based on case studies or a small sample of respondents (Chelliah et al., 2010; Coviello and Jones,

2004).

To date, international entrepreneurship studies have contributed a large pool of manufacturing and high-technology studies for comparative examination but there is a lack of service sector research or comparative research within and across sectors (Coviello and Jones, 2004). Few studies have examined service industries (Abdul-Aziz and Wong, 2010; Coviello et al., 2011) that remain historically understudied (Majumdar et al., 2010; Saarenketo et al., 2008). Knowledge about particular organizations is also relatively new and limited (Tuppura et al., 2008), with the agribusiness sector being much neglected by researchers (Ibeh, 2005; Spence and Crick, 2006).

This research explores three main industries; manufacturing, service and agriculture, consistent with recommendations in the literature for greater diversity in the industry scope (Saad, 2014; Zahra, 2007) in the emerging economies, with the specific intention of assessing whether theoretical perspectives developed in mature market contexts are valid in emerging economies (Akçay et al., 2014; Brush et al., 2011). By exploring a variety of industry contexts, international entrepreneurship scholars can enhance understanding of the links between industry-level variables and internationalization patterns, as well as contribute to theories that may be generalized to a greater range of economic sectors (Zahra, 2007).

Strategic management and entrepreneurship researchers have recognized the importance of the external environment on firms' various strategic choices (Szyliowicz and Galvin, 2010; Zahra, 2005). Fernhaber et al. (2008) found that international new ventures competed in industries that exhibited significantly higher levels of government protection and regulations, thus confirming that reputation is an important strategic asset (Palich et al., 2000; Saad, 2014), particularly for young entrepreneurial companies (Sinkovics and Bell, 2005). A favourable reputation, constructive support, connection to power and established networks and other invisible assets can greatly influence the ways companies proceed to position themselves (Calabrese and Manello, 2018), especially in international markets. Callaway (2004) suggested that external factors predict and significantly affect entrepreneurial performance. Callaway (2004) further suggested that studies within the field of entrepreneurship development that do not consider the external environment should be considered incomplete and invalid. By integrating the external environment factor in terms of government support, this research seeks to better document the determinants of internationalization among small and medium enterprises in emerging markets.

There has been increased interest in the internationalization activities of small and medium enterprises (Abdullah and Zain, 2011; Coviello et al., 2017). While current studies have explored the process of the internationalization of small and medium enterprises, the determinant factors of internationalization in this area present an unfilled gap in the literature on international entrepreneurship and strategy in emerging economies (Chelliah et al., 2010; Saad, 2014; Senik et al., 2010).

Even though small and medium enterprises play a major role in the development of the Malaysian economy, issues related to these enterprises remain relatively unexplored, with much research excluding the limitations such as the lack of frameworks, for better understanding of the sector (Nik Abdullah and Mohd Zain, 2011; Roudini and Osman, 2012). Most emphasized the observing and reporting of specific characteristics of SMEs, ignoring issues such as factors that can influence the internationalization of small and medium enterprises (Kabongo and Okpara, 2019). Hashim (2012) also reported little research attention was given to the impact and effect of government support programmers on these enterprises in Malaysia.

Given the significant contribution of small and medium enterprises in Malaysia and the lack of clear conclusions towards the determinants of internationalization and their development, this study focuses on such enterprises to help and guide both businesses and the government to build competitive enterprises in the international market.

This study identifies several gaps in prior research in international entrepreneurship as highlighted by various researchers. First, much work has focused on relatively young high-technology industries located in developed countries with little emphasis on traditional industries (Chandra and Coviello, 2010; Senik et al., 2010), thus knowledge on international entrepreneurship in emerging economies is quite limited (Kiss et al., 2012; Saad, 2014). The present study investigates a sample of Malaysian SMEs in an emerging economy with a focus on young and established firms, traditional, low-technology and high-technology industries to determine if the results are comparable with those from developed countries.

Most studies emphasized manufacturing firms, there is a lack of service sector research or comparative research within and across sectors (Coviello et al., 2017; Zahra, 2007). Few studies have focused on service industries (Abdul-Aziz and Wong, 2010) which are historically understudied (Ferreira et al., 2011). Knowledge about particular organizations is quite new and limited (Saad, 2014; Saarenketo et al., 2008), while the agribusiness sector has also been neglected by researchers (Ibeh, 2005; Spence et al., 2008). This research contributes to greater diversity in the industry scope by exploring three main industries, manufacturing,

service and agriculture in emerging economies as recommended in the literature (Zahra, 2007). The aim is to contribute to the literature in confirming whether theoretical perspectives developed in mature market contexts are valid in emerging economies. Specifically, it aims to ascertain clear international entrepreneurship patterns and outcomes.

The field of international entrepreneurship is fragmented, inconsistent and lacks common theoretical integration, resulting in uncertain progress (Coombs et al., 2009; Jones et al., 2011). Essentially, the research lacks a unified framework that connects the antecedents of internationalization pursued by new ventures and established companies (Jones et al., 2011; Saad, 2014). Therefore, this study used a unified framework that connects the antecedents of internationalization and thus provides a comprehensive view of the internationalization of Malaysian SMEs.

This study draws on prior research that presumed that international entrepreneurship is indicated by a simple measure of a firm's international sales revenues (Paul, 2020; Reuber and Fischer, 2011). Specifically, this study incorporates a percentage of the company's sales from international operations, a percentage of the company's profit from international operations, the number of the company's international markets and the duration of time involved international operations as a more accurate form of measurement.

Strategic management and entrepreneurship researchers have recognized the importance of the external environment on firms' various strategic choices (Szyliowicz and Galvin, 2010). With little research attention on the impact and effect of government support programmers to the SMEs in Malaysia (Hashim, 2012; Saad, 2014), this study showcases a better model to explain the relationships between internationalization and firm performance of these enterprises through the integration of external environment factors in terms of government support.

If prior research does not help us to fully understand the determinants factors of internationalization of small and medium enterprises in emerging economies (Abdullah and Zain, 2011; Saad, 2014; Senik et al., 2010), this study sheds light on the relationships between entrepreneurial orientation, global mindset, network relationships and government support as the determinant factors of internationalization of small and medium enterprises in Malaysia.

This study has vital business implications in the form of best practices for Malaysian SMEs for improving performance in international markets. The government may use findings from this study to create or modify policies and regulations that

should enhance the international competitiveness of small and medium enterprises in Malaysia.

## **2.0 Literature Review**

### **2.1 Internationalization**

Internationalization has become one of the major themes in international entrepreneurship research from a variety of viewpoints, including organization theory, marketing, strategic management, international management, and small business management (Coombs et al., 2009; Matlay et al., 2006; Saad, 2014). Its significance has been growing due in part to increased globalization and hyper-competition (Matlay et al., 2006). Issues such as international decision making and management, the development of international activities, and factors favouring or disfavoring internationalization have been researched both for large as well as small organizations (Abdullah and Zain, 2011; Chelliah et al., 2010; Lin et al., 2011).

The past decade has seen a marked increase in interest in the internationalization activities of SMEs (Abdullah and Zain, 2011; Coviello et al., 2017). The strategies used by such enterprises to enter and compete in international markets have been of particular interest to international business scholars (Pangarkar, 2008). Moreover, research in the internationalization of SMEs is often viewed alongside emerging research interest in international entrepreneurship (Callaway, 2004).

Internationalization is of vital importance for various countries due to its contribution to economic growth (Dutz et al., 2000; Saad, 2014) and the country's well-being and international reputation (Pina e Cunha, 2005). Particular interest in this area has been given to export performance, mainly in terms of such correlates as firm size (Jiang et al., 2020), firm age (Zahoor and Al-Tabbaa, 2021), strategy (Zahoor and Al-Tabbaa, 2021), perceptions (Akçay et al., 2014), orientations (Tang et al., 2009), international experience (Idris and Saad, 2019; Reuber and Fischer, 2011), attitudes (Okhomina, 2010), commitment (Tahir et al., 2011) and other characteristics of managers (Dimitratos et al., 2012), organizational characteristics and organization culture (Hagen and Zucchella, 2014), product characteristics (Lu and Beamish, 2006), distribution and marketing focus characteristics (Lu and Beamish, 2006) and industry environment (Ciravegna et al., 2019).

Other important issues within this area of study include the role of networks for internationalization (Fink et al., 2008; Saad, 2014), international joint ventures

(Zahoor and Al-Tabbaa, 2021), alliances (Nummela and Welch, 2006), export information (Falahat et al., 2020), relationships with suppliers (Jones et al., 2011), international channels choice decisions (Falahat et al., 2020), governmental export policies and programmes (Ushakov, 2011), international transfer of technology (Prange and Verdier, 2011), innovativeness (Solano Acosta et al., 2018) and diffusion of innovations (Acs, 2003), export stimuli (Etemad et al., 2014), personal and personnel adjustments (Dana, 2021), and export financing (Chen and Tan, 2012).

To many, internationalization is the key to a firm's growth (Kabongo and Okpara, 2019; Saad, 2014). The need to internationalize has become increasingly important due to; the organizations' self-interest, the belief that their position in the home market is threatened, foreign business opportunities, and also the impact of various external events and forces (Matlay et al., 2006). Zahra et al. (2005) suggested varying motivations exist for entrepreneurs to internationalize their operations. Among the motivating factors that influence entrepreneurs in entering overseas markets to include market expansion, increased profit and exposure to new ideas. However, these motivations have been overlooked in past empirical research, generating a serious gap in international entrepreneurship research.

Local researchers observed that the determinants of internationalization of Malaysian SMEs remain an unfilled gap, specifically the literature linking international entrepreneurship and strategy in emerging economies (Saad, 2014; Senik et al., 2010). Generally, the issues are related to the patterns of internationalization (Andersson, 2004), the impact of networking on Malaysian SMEs internationalization (Nik Abdullah and Mohd Zain, 2011), the role of the Malaysian government as well as business strategies (Hashim, 2012). Fragmentations in the above studies show that the determinants of internationalization are not fully understood in Malaysia, thus providing impetus to explore these issues in greater detail.

## **2.2 Dimensions of Internationalization**

Mort and Weerawardena (2006) contributed to the development of SMEs internationalization through a comprehensive study that is representative, diverse and helpful for the development of meaningful measures of internationalization. The study concluded that foreign sales, as a percentage of total sales, have been extensively used to measure internationalization. Similarly, Contractor et al. (2007) measured internationalization through the eigenvector-weighted sum of foreign sales or total sales, the number of foreign employees or number of total employees and the number of foreign offices or number of total offices. In separate



research, Reuber and Fischer (2011) considered three components for measuring the internationalization of SMEs which include foreign sales as a percentage of total sales. This is a standard, a single measure of the degree of internationalization, encompassing the percentage of the firm's employees that spend over 50 percent of their time on international activities to capture the structural aspects of SMEs, degree of internationalization and the geographic scope of sales of the firm by the measure of the number of sales from different countries. Therefore, it can be concluded that past researchers focused on three dimensions of internationalization, namely the extent, speed, and scope of internationalization (Zahra, 2007).

## **2.3 Internationalization Theories**

### **2.3.1 Resource-Based Theory**

The resource-based view, which had been developed within the field of strategic management focuses on sustainable and unique costly-to-copy attributes of the firm as the sources of economic rents, the basic drivers of the firm and sustainable competitive advantage required for internationalization and superior financial performance (Schmid et al., 2010). A firm's capabilities in obtaining and maintaining profitable market positions depend on its capacity to gain and defend advantageous positions concerning the resources important to the firm (Runyan et al., 2008). Korsakiene and Tvaronavičiene (2012) posited that a firm's success in the market not only depends on environmental factors but also on the firm's functions and influence on the environment. They suggested that critical resources needed for internationalization should be valuable, rare, imperfectly imitable, and not substitutable. In addition, Kamakura et al. (2012) suggested that resources must capture durability, transparency, transferability, and replicability. While the resource-based theory is considered ideal by some for explaining a firm's international expansion, yet to some extent, it is unable to explain the choice of some entry mode strategies (Sommer and Haug, 2011). Furthermore, Falahat et al. (2020) argued that it does not appear able to measure various intangible assets.

### **2.3.2 Network Theory**

A firm's internationalization within a process approach can be analyzed by using networks as the starting point as this approach presents firms as embedded actors in business networks (Johanson and Mattsson, 1993). By using the Uppsala model, Johanson and Vahlne (1990) continued with an examination of the internationalization process by applying a network point of view. The extended model engages investments in networks that are new to the firm, whereby

penetration involved developing positions and increased resource commitments in established networks. Integration refers to the coordination of different national networks and whether the relationships between firms are seen as a network. It is argued that firms internationalize since firms in their international networks do so.

The Johanson and Mattsson (1993) model highlighted gradual learning and the development of market knowledge through interaction within networks. The firm's position in the network can be considered from both micro (firm-to-firm) and macro (firm-to-network) perspectives. With the combination of these two elements, Johanson and Mattsson (1993) recognized four stages of internationalization: the early starter, the late starter, the lonely international, and the international among others. They argued that the internationalization of the firm means that the firm establishes and develops positions to other counterparts in a foreign network. The internationalizing firm is usually involved in a network that is mainly domestic and further develops business relationships in networks in other countries. The main issue that arose regarding the network approach, one that seems neglected in most process-oriented research, is the strategic position and influence of individuals, specifically entrepreneurs, in the internationalization of SMEs (Matlay et al., 2006).

### **2.3.4 International Entrepreneurship Theory**

International entrepreneurship theory along with network theory represents state-of-the-art knowledge in international business thought. This theory represents the two extremes of incremental theory and network theory. The former focuses on large multinational firms with slow progress in international markets while the latter focuses on very rapidly internationalized small firms. International entrepreneurship theory argues that the individual's and firms' entrepreneurial behaviour is the foundation of foreign market entry (Mtigwe, 2006). While some authors argued that network theory and international entrepreneurship theory are synonymous, yet there are significant differences. International entrepreneurship can and exists outside formalized networks. In Southern Africa for example, most small firms expand into international business without the assistance of partners in a formalized network (Mtigwe, 2006). Therefore, there are two methods through which an entrepreneurial firm can internationalize: through a formal network or without the assistance of a formal network. Moreover, internationalization through networks may be the exception rather than the norm or maybe at least industry-specific. Therefore, international entrepreneurship theory and network theory should be viewed as complementary theories rather than synonymous theories.

However, some scholars have argued that international entrepreneurship is a far more inclusive phenomenon that cannot be understood from the perspective of small firm behaviour alone. More so, it cannot be viewed from the perspective of the 'Born-global' variety of small firms alone, on which the bulk of present international entrepreneurship literature is based. Thus, Zahra (2005) suggested that this has led to the exclusion of related theoretical contributions and proper articulation of what international entrepreneurship is and what it is not. In addition, they argue that this limited focus on international entrepreneurship is not warranted because large corporations frequently demonstrate entrepreneurial behaviour that is identical to those of small firms.

## **2.4 Determinants of Internationalization**

Current studies suggest that several internal and external factors determine the internationalization of SMEs (Dana, 2021; Saad, 2014). Internal factors comprise firm-specific resources, foreign business experience, networking and strategic considerations that can be managed by the firms. Senik et al. (2010) found that the influential factors for SMEs internationalization in the Malaysian manufacturing industry include firm characteristics and motivational aspects. Furthermore, their study disclosed that the most influential factor for SMEs internationalization is networking. Several studies also indicated that network relationships are important determinant factors for small and medium-sized enterprises internationalization (Coviello et al., 2017). External factors include country and industry factors which are normally beyond the firms' control (Kunday and Şengüler, 2015; Saad, 2014). For example, (Hashim (2015) posited that the success of SMEs was influenced by three factors; entrepreneurial characteristics, the organizational context and the external environment.

Lin et al. (2011) suggested that firm internationalization was influenced widely by industry and resource-based considerations that were inherently shaped by domestic and international institutional frameworks governing these endeavours. In Malaysia, besides the support and assistance from the government, the business strategies of the SMEs further influenced the development of the SMEs sector (Hashim, 2012; Saad, 2014).

## **2.5 Entrepreneurial Orientation**

The concept of entrepreneurial orientation summarizes the firm-level processes, practices, decision-making styles (Lumpkin et al., 2011) and strategic orientation (Wiklund and Shepherd, 2005) of an entrepreneurially-oriented firm has

become a major construct within the strategic management and entrepreneurship literature (Soininen et al., 2012).

Entrepreneurial orientation can be defined as the willingness of the firms to display proactive and innovative actions and to take calculated risks to create and exploit environmental opportunities (Covin and Slevin, 1989). Covin et al. (2006) defined entrepreneurial orientation as a strategic construct whose conceptual domain includes certain firm-level outcomes and management-related preferences, beliefs, and behaviours as expressed among a firm's top-level managers. In addition, Runyan et al. (2008) argued that entrepreneurial orientation is evidenced through visible entrepreneurial tendencies toward innovativeness, pro-activeness and risk-taking.

Miller & Friesen (1983) stated that "An entrepreneurial firm engages in product market innovation, undertakes somewhat risky ventures, and is first to come up with "proactive" innovations, beating competitors to the punch". Entrepreneurial orientation has been studied using a multidimensional construct of three to five dimensions. The three commonly cited dimensions of entrepreneurial orientation, proposed by Miller in 1983, are innovativeness, pro-activeness, and risk-taking. These three dimensions are part of the eleven "entrepreneurial" dimensions of strategy Miller and Friesen discussed in their 1978 paper.

Based on Miller & Friesen's (1983) statement, several researchers proposed that entrepreneurial orientation be a combination of the three multi-dimensional constructs; innovativeness, pro-activeness and risk-taking. Therefore, entrepreneurial orientation involves a willingness to innovate to rejuvenate market offerings, take risks to try out new and uncertain products, services, and markets, and be more proactive towards new marketplace opportunities than their competitors (Covin and Slevin, 1989; Miller and Friesen, 1983).

## **2.6 Global Mindset**

A growing number of researchers viewed the global mindset, or cognitive capabilities of key decision-makers, as important success factors that influence organizational outcomes (Gupta and Govindarajan, 2002; Levy et al., 2007). To be a global entrepreneur requires a different mindset and to be successful, entrepreneurs must see their companies from a global perspective and must instil a global culture throughout their companies that permeates all business activities (Scarborough et al., 2012). This emerging phenomenon reflects the recognition that competitive environments today require a shift in focus from structural and

administrative mechanisms to mindset-based capabilities (Story and Barbuto, 2011).

To better understand the term “global mindset” it is crucial to appreciate the core concept of mindset. The concept of mindset is derived from the fields of cognitive psychology and organizational theory wherein scholars decipher how people and organizations make sense of the world with which they interact (Gupta and Govindarajan, 2002). They defined a global mindset as a firm’s or manager’s openness to and awareness of diversity across cultures and markets with a propensity and ability to synthesize across the divides. Similarly, the definition by Ishii (2011) described it as an individual’s predisposition towards a particular international approach and experience. According to Rhinesmith (1992), a global mindset is a way of being rather than a set of skills. It is an orientation of the world that permits one to view certain things that others fail to see. A global mindset represents the ability to scan the world from a wide perspective, always looking for unanticipated trends and opportunities that may consist of a threat or an opportunity to achieve personal, professional or organizational objectives. Peter Senge (1990) defines mindset as deeply ingrained assumptions, generalizations, or images that influence how individuals understand their surroundings and then take action (Buckley and Tian, 2017). Another definition by Paul (2000) described mindset as a set of deeply held internal images and assumptions that individuals develop through a continuous process of learning which, consequently, determines how they perceive and then react to a specific situation (Jiang et al., 2020). The above definition indicates that the global mindset concept can be used by both individuals and organizations. Specifically, the organizational mindset is just an aggregated mindset of its organizational members interacting with each other. Further, Perlmutter (1969) and Sullivan (2002) suggested that global mindset can be classified into three mental models, namely, ethnocentric (home country mindset), polycentric (host country mindset), and geocentric (global mindset).

## **2.7 Network Relationships**

The significance of network relationships on firms’ internationalization behaviour has been emphasized in several studies (Ojala, 2009). Research related to SMEs in knowledge-intensive sectors suggested that network relationships between firms or individuals are seen as determinants of internationalization (Coviello, 2006; Saad, 2014). Network relationships can assist firms in gaining access to resources, improving their strategic positions, controlling transaction costs, learning new skills, gaining legitimacy, and coping positively with rapid technological changes (Hemmert, 2004). In addition, Fernhaber et al. (2014)

argued that networks assist founders of international new ventures, or born-globals, to identify international business opportunities and also have an influence on the founders' country choices. Subsequently, Spence et al. (2008) posited that networking within and outside the SMEs' network improves a firm's performance.

Also, researchers Coviello and Cox (2006) argued that network relationships impact knowledge-intensive SMEs market and entry mode choice. They found that firms' network relationships were seen as the main initiators in the internationalization process as firms followed their networks into foreign markets. This finding concurs with assumptions in the internationalization network model (Johanson & Mattsson, 1993) that network relationships can act as a bridge to foreign markets.

Axelsson and Easton (1992) defined networks as a set of two or more connected exchange relationships. They suggested that markets are depicted as systems of social and industrial relationships among, for example, customers, suppliers, competitors, family, and friends. In the context of internationalization of SMEs, Abdullah and Zain (2011) defined network as a firm's management team and employees' relation with customers, suppliers, competitors, government authorities, bankers, families, friends, or any other party that enables a firm to internationalize its business activities. According to Johanson and Mattsson (1993), a firm can build relationships with a variety of actors, including customers, distributors, suppliers, competitors, non-profit organizations, and public administration. The diverse types of network relationships for penetrating foreign markets can be categorized into formal or informal types (Coviello et al., 2011), and intermediary (Freeman et al., 2012).

Formal relationships are related to business activities between two or more actors in the network, informal relationships are related to personal relationships with family members and friends (Coviello et al., 2017; Saad, 2014) and intermediary relationships are related to third parties that facilitate the establishment of the network relationship between buyers and sellers (Oviatt and McDougall, 2005).

## **2.8 Government Support**

The development of SMEs and diversification of structure over time through employment and output share, output composition, market orientation, and location are related to many factors including the level of economic development and government promotion programs (Saad, 2014; Tambunan, 2008). Studies also showed increased acceptance of the various functions contributed by SMEs in wider social and economic restructuring (Smallbone and Welter, 2001). Thus,

to capture these economic and social benefits, virtually all governments support this sector (Ushakov, 2011). In that vein, Asgari et al. (2010) observed that Malaysian companies have achieved competitive advantage from technological skills, knowledge capabilities and the government's commitment to support the expansion of firms. It was also found that government policies impacted the internationalization path of SMEs (Acs et al., 2001) and the success of entrepreneurs (Spencer and Gómez, 2004).

The most logical way that governments can influence SMEs is through direct support policies and programmes that assist small firms to overcome size-related disadvantages (Smallbone and Welter, 2001). Government support programs in terms of general financial support or preferential treatment for entrepreneurial ventures (Spencer and Gómez, 2004), resources available through government procurement programs (Douhan and Henrekson, 2011), tax incentives (Akçay et al., 2014), business development assistance (McDougall and Oviatt, 1996), and government export assistance programs (Shamsuddoha et al., 2009) contribute to the regulatory environment that can assist individuals' entrepreneurial efforts. Abdullah (1999) identified the five aspects according to which the Malaysian government support programmes can be divided into, which are: financial and credit assistance; technical and training assistance; extension and advisory services; marketing and market research; and infrastructure supports.

### **3.0 Proposed Conceptual Framework**

The proposed conceptual framework of this study is developed based on the literature review and related theories. The proposed conceptual framework is built around the concept of internationalization that consists of internationalization properties (market and time) and other building blocks of the proposed conceptual framework are organizational and environmental characteristics. The characteristics of the SMEs under study are reportable by the SMEs owner, Chief Executive Officer or general manager

The proposed conceptual framework advances SMEs internationalization research by clarifying the newly emerging field of international entrepreneurship and its theoretical foundation within internationalization research. International entrepreneurship placed more importance on entrepreneurship and entrepreneurs (and their characteristics), broadly considered as the key variables in SMEs internationalization research. In addition, it emphasized the time dimension, particularly with the growing number of such enterprises operating internationally from their inception and thus signifying time as one of the strategic dimensions of

internationalization.

The proposed conceptual framework is expected to provide several contributions to the literature and addresses the issue for the development of an integrated and multidisciplinary approach to understand the internationalization of SMEs in Malaysia. Internationalization cannot be fully explained by one theory (Chandra and Coviello, 2010), and is better explained with an integrated approach (Freeman et al., 2012). Thus, this proposed conceptual framework integrates several theories related to internationalization that were discussed, namely resource-based theory, network theory and international entrepreneurship theory. Besides, it also focuses on the multidisciplinary field of study, international business, strategic management and international entrepreneurship intending to better understand, fully explain and document the internationalization of SMEs in Malaysia.

The proposed conceptual framework also considers environmental factors in terms of government support that may impact the internationalization of SMEs (Saad, 2014; Zahra, 2005). Furthermore, it represents a unified framework that connects the antecedents and internationalization pursued by new ventures and established companies (McDougall and Oviatt, 2000). This research is based on the proposed conceptual framework presented in Figure 1 below.

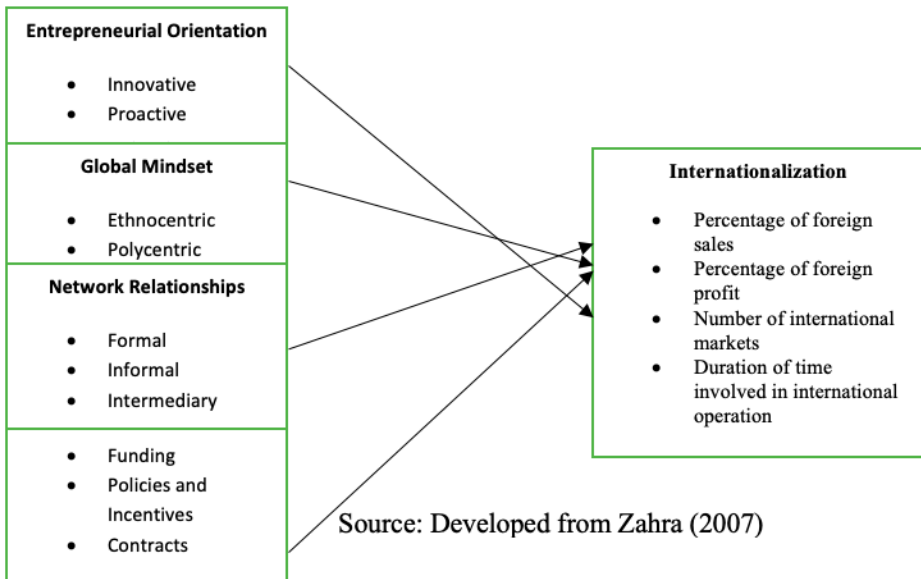


Figure1: Proposed Conceptual Framework



### **3.1 Propositions Development**

Several propositions were developed based on the literature review and related theories. These propositions focus on the influence of entrepreneurial orientation, global mindset, network relationships and government support on internationalization. Details of the specific research propositions are presented as follows:

### **3.2 The Effects of Entrepreneurial Orientation on Internationalization**

Scientific literature suggested that two main factors, internal and external, determine the internationalization of SMEs (Saad, 2014; Zahra, 2007). Internal factors comprise organizational characteristics that consist of firm size, strategy, international experience, international orientation, networking and other founders or managers' and firm characteristics that can be managed by the firms (Antoncic and Prodan, 2008; Saad, 2014). Conversely, external factors comprise environmental characteristics such as country factors and industry factors which are normally beyond the firms' control (Kunday and Şengüler, 2015). The four main environmental characteristics that are critically important for internationalization are domestic markets, foreign markets, market internationalization, and industry (Matlay et al., 2006).

Saad (2014) posited that the success of SMEs in Malaysia was influenced by three factors, being, entrepreneurial characteristics, the organizational context and the external environment. In addition, Senik et al. (2010) found that the factors influencing SMEs internationalization in Malaysia were firm characteristics, industry factors, external influence, and motivational aspects. As such, the above evidence strongly supported that the determinants of Malaysian SMEs internationalization are organizational and environmental characteristics. Thus, the present study used entrepreneurial orientation, global mindset, and network relationships as organizational characteristics and government support as environmental characteristics that affect the internationalization of SMEs in Malaysia.

Entrepreneurial orientation has been acknowledged as a determinant of the internationalization of SMEs ((Ripollés-Meliá et al., 2007). The internationalization of a firm either by export or direct foreign investments is considered as an entrepreneurial act because it involves the process of identifying and exploiting new business opportunities in a new environment which requires innovative and proactive attitudes (Fletcher, 2004). Furthermore, internationalization involves

certain levels of risk due to the major probability of failure in an unknown foreign environment (Lu and Beamish, 2006).

Miller and Friesen (1983) suggested that the development of entrepreneurial orientation is strongly related to the existence of flexible, organic, organizational procedures that lead the way in a proactive search for international business opportunities and prompt economic exploitation. As such, the earlier the firm's internationalization process, the greater the firm's readiness to explore and develop new business opportunities and finally act in an entrepreneurial manner.

Highly entrepreneurial orientation firms identify new business opportunities earlier than their competitors and their proactive characters and readiness to take higher risks to assist them in exploiting the opportunities before their competitors (Ripollés-Meliá et al., 2007). In addition, Kunday and Şengüler (2015) suggested that entrepreneurial orientation should be an instrument for the expansion and enactment of key organizational routines to be successful in international markets. As such, the review of the literature and above arguments suggested that relationships exist between entrepreneurial orientation and internationalization. Subsequently, this study proposed that entrepreneurial orientation will impact internationalization. Therefore, the following proposition is proposed:

H1: Entrepreneurial orientation relates positively to internationalization.

### **3.3 The Effects of Global Mindset on Internationalization**

Active research has viewed the global mindset, or cognitive capabilities of key decision-makers, as important factors that influence internationalization and organizational outcomes (Gupta and Govindarajan, 2002; Levy et al., 2007). To be a global entrepreneur requires a different mindset and to be successful, entrepreneurs must see their companies from a global perspective and must instil a global culture throughout their companies that permeates all business activities (Scarborough et al., 2012). This emerging phenomenon reflects the recognition that competitive environments today require a shift in focus from structural and administrative mechanisms to mindset-based capabilities (Korsakiene and Tvaronavičienė, 2012).

Researchers and practitioners have recently suggested that the global mindset of managers is a prerequisite for early internationalization (Cavusgil et al., 2004; Fletcher, 2004). Di Gregorio (2005) found that the positive attitude of the manager is a significant factor in comparisons conducted between exporters from non-exporters. Furthermore, Oviatt and McDougall (2005) found that new ventures managed by managers with global visions can internationalize speedily and

successfully. Kunday and Şengüler (2015) observed that rapidly internationalizing firms seem to be more globally oriented than others. The above discussion signifies the importance of a global mindset for internationalization and leads to the following proposition:

H2: Global mindset relate positively with internationalization.

### **3.4 The Effects of Network Relationship on Internationalization**

The importance of network relationships on the firms' internationalization process has long been recognized in several studies (Kontinen and Ojala, 2011). Research related to SMEs in knowledge-intensive sectors suggested that network relationships between firms or individuals were seen as determinants of internationalization (Coviello et al., 2017; Saad, 2014). Network relationships can assist firms to gain access to resources, improve their strategic positions, control transaction costs, learn new skills, gain legitimacy, and cope positively with rapid technological changes (Hsieh et al., 2019). In addition, McDougall et al. (1994) suggested that networks assisted founders of international new ventures, or born-global to identify international business opportunities and also influenced the founders' country choices.

Various researchers (Coviello et al., 2017; Saad, 2014) also suggested that network relationships impacted knowledge-intensive SMEs market and entry mode choice. In addition, they found that firms' network relationships were seen as the main initiators in the internationalization process whereby firms were seen to be following their networks to foreign markets. This finding concurs with the assumption in the network internationalization model (Johanson and Mattsson, 1993) that network relationships can act as bridges to foreign markets.

Researchers also recognized the importance of networks to SMEs (Hansen et al., 2011). Korsakien and Tvaronavien (2012) discovered that nearly more than half of Finnish SMEs started their internationalization process with inward foreign operations through the import of physical goods or services. They concluded that such inward operations permit international network connections to be established. Coviello and Munro (1997) found that successful New Zealand-based software firms were actively engaged with international networks and outsourced many market development activities to network partners. Another research by Bonaccorsi (1992) that studied Italian SMEs, suggested that access to external resources (through buyer-seller relationships) played a significant role in the firms' internationalization process. The most recent study by Ibeh and Kasem (2011)

found that networks were crucial in explaining the initial internationalization, market selection and internationalization speed of SMEs of Syrian software firms. Therefore, it can be expected that internationalization will be influenced by network relationships. This leads to the following proposition:

H3: Network relationships relate positively to internationalization.

### **3.5 The Effects of Government Support on Internationalization**

The role of the government through its policies is vital in assisting and influencing the internationalization path of SMEs (Acs et al., 2001; Saad, 2014). Government support is crucial for SMEs that face a shortage of internal and also external resources in terms of alliances with other upstream and downstream companies abroad (Kang and Park, 2012). In addition, it is the mandate of many government agencies to assist SMEs in entering foreign countries especially in countries with corrupt or inefficient legal systems that may be subject to political and other risks that are not issued in the domestic market (Acs et al., 2001).

Logically, the government can influence SMEs through direct support policies and programmes that plan to assist small firms to overcome size-related disadvantages (Smallbone and Welter, 2001). Government support programs in terms of general financial support or preferential treatment for entrepreneurial ventures (Spencer and Gómez, 2004), resources made available through government procurement programs (Saad, 2014), tax incentives (Harris & Wheeler, 2005), business development assistance (McDougall and Oviatt, 1996), and government export assistance programs (Douhan and Henrekson, 2011) contribute to the regulatory environment that can assist individuals' entrepreneurial efforts. Abdullah (1999) observed that Malaysian government support programmes can be divided into five aspects, among which are: financial and credit assistance; technical and training assistance; extension and advisory services; marketing and market research; and infrastructure supports.

The importance of government support in assisting SMEs has been studied by several researchers. Sulaiman et al (2010) found that government support was one of the contributing success factors for small businesses in the South Pacific. Acs et al. (2001) discovered that government policies impacted the internationalization path of SMEs in Canada while recent research by Kang and Park (2012) indicated that government support through project funding, directly and indirectly, affected the innovation outputs of small and medium biotechnology enterprises in South Korea. Thus, it is expected that government support will impact internationalization.

This leads to the following proposition:

H4: Government support relates positively to internationalization.

## **4.0 Conclusion**

Internationalization is a vital issue for the new and established venture by providing growth opportunities in a foreign market. Theoretically, this study developed a proposed conceptual framework that leads to a better understanding of the determinants of the internationalization of SMEs in Malaysia. The proposed conceptual framework extends entrepreneurial orientation, global mindset, network relationships and government support on the constructs of internationalization. The resource-based of the firm suggests capabilities that are valuable, rare, and inimitable can be a source of competitive advantage.

Policymakers should motivate SMEs by encouraging internationalization as it increases revenue to the firm and allows SMEs to enjoy growth in international markets. They should work with SMEs to assist them to determine their unique capabilities and simultaneously examine foreign markets to identify opportunities that might benefit the SMEs in Malaysia. Emphasizing motivational and self-assessment initiatives is critical because these can influence the firms' internationalization efforts.

Another important practitioner implication of this study is that managers should be aware of the complexity of internationalization and the need to regularly evaluate various elements related to SMEs internationalization. Elements such as skills, competencies, and management know-how are not only important attributes that entrepreneurs need to build up to be successful in internationalization but are also critical to the firm's favourable positioning in the global market.

Entrepreneurial SMEs are considered as the most important engines of job and wealth creation, and the main front of resilient competitiveness. Therefore, the government must work to provide a fairly competitive business and regulatory environment which is conducive to the start ups' growth and the development of globally competitive SMEs in Malaysia.

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