



Factors Affecting Small Medium Enterprises' (SMEs) Decision to go International

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ABSTRACT

Small and Medium Enterprise (SMEs) have grown increasingly significant with the additional activity of exporting and has caught the attention of the experts. They have now grown to be the largest cluster of industry. SMEs also have the chance to be the dominant driver of export growth and suggest that SMEs actively participate in the export efforts, but the contribution diverge between countries. As they are participating in export between countries, indirectly they are veering towards internationalization. Internationalization provides a new business opportunity for innovation and new export markets, both upstream and downstream, with large firms between the SMEs themselves. SMEs are also viable for internationalization due to technological development, the deregulation of markets, the liberalization of world trade and the emergence of regional economic cooperation agreements. The study aims to identify the relationship between influential factors and SME's decision regarding internationalization. The influential factors were identified as external factors, internal factors and networking factors which considerably affect the decision of SME's regarding internationalization. Other than that, it also aims at assessing the most influential factor affecting internationalization of SMEs. The focus is on SMEs that are involved in international markets and registered as MATRADE members. The method used to conduct the survey is by distributing the questionnaire through email blasts to all registered SMEs. The total SMEs services companies under MATRADE databases are 300. Thus, the target respondents from the population which are 105 companies basically located in Klang Valley. Correlation analysis and regression were utilized to analyze the data and meet the research objectives. The expected outcome from this research project is to analyze the three influential factors; that is external, internal and networking that have the most influential effects on SMEs internationalization.

Key words: *Small Medium Enterprise, Internationalization*

1.0 RESEARCH BACKGROUND

Small and medium enterprise (SMEs) in Malaysia play an important role in the economy. They are considered as the backbone of the national economic development. According to the Economic Census (2016), Department of Statistic Malaysia has confirmed that 98.5% of business establishments in Malaysia are SMEs in various sectors. It is undeniable that SMEs is the biggest contributors to Malaysian economy. Despite being the top contributors in the Malaysian economy, they are also expected to be progressive in enhancing wealth creation and social well-being of the nation. In achieving the mission, SME development is helped by the SME Corp. Malaysia and MATRADE. These two agencies provide sustainable growth solution, financial aids and internationalization through market entry strategies. Internationalization is one of the missions set to be achieved by SMEs to have a competitive global presence. Nowadays, SMEs have become shown considerable progress in exporting and this has caught the attention of the experts. They have now grown to be the largest cluster of industries. SMEs also have the capability to become the dominant driver of export growth and it is suggested for SMEs to actively participate in the export efforts. However, the contribution diverges between countries (Fariza ,2012). MATRADE has been as one of the National Trade Promotion Agency of Malaysia. Their focal point is to assist the Malaysian exporter that is registered under MATRADE to expand their export markets. Its objective is to promote demand in order to raise the Malaysian exporter profile into overseas markets. MATRADE has assisted them either through local or overseas. In the eagerness to go global, SMEs must understand the challenges and other factors that they might face. Therefore, in previous years many experts have been debating over this internationalization drive and what factors may contribute to the decision of SMEs companies, who want to venture into internationalization. When going further in this study you will see all these factors will be explained.

2.0 LITERATURE REVIEW

2.1 Internationalization

According to Fariza (2012), a considerable growth of SMEs in exporting and international markets are characterized by the international involvement for these firms. Thus, with the global markets, it provides a new business opportunity for innovation and new export markets through both upstream and downstream channels among the SMEs themselves. To participate effectively in global markets, SMEs are required to have and maintain significant capabilities in different areas ranging from the industry value chain which includes the production, design, distribution branding and marketing (Abonyi, 2003). SMEs have also 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 are able to exploit the opportunities in the foreign market and learn from their global ventures. Internationally, SME companies that operate in overseas markets can gain new experiences and can incorporate them into their local operation, thus leading them to strengthen their competitiveness and global presence (Lages and Montgomery, 2004). Furthermore, internationalization also helps industries to improve their productivity through social prosperity. Besides, it also gives support to socio-economic development, generated foreign exchange, reduces national deficit and enriches employment opportunities.

2.2 External Factors/Environmental factors

Government issues can be a barrier to SMEs when they want to venture internationally. Issues such as regulations, the policy, and incentives are also affecting SMEs decision to go international market (Senik et. al, 2014). 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 (Senik et. al, 2014). The external factors that affect the SME's in internationalization can be categorized into the 1) market environment, 2) governmental characteristics and 3) environmental characteristics. The size of market, sales potential, availability and the degree of internationalization in domestic and foreign markets are referring to market environmental (Jones & Coviello 2005; Root 1994). On a different perspective by Shepherd, Richard and Ronicah (2013), the external factors that affects internationalization of a firm are regulation, technology and competition.

2.3 Internal Factors/Managerial Factors

Internal factors best describe the firm's characteristics, competencies, resources, entrepreneurial orientation and key personnel. It was also emphasized that unique resources, sound finance, skilled and experienced employees are the extra points for successful international adjustment (Senik et al., 2014). The key personnel comprise of the personnel experience, attitude, perceptions (Shepherd, Richard and Ronicah, 2013). Senik et al., (2010) emphasizes that unique resources, sound finance, skilled and experienced employees are the extra point for success (Barney, 1991 and 2001; Madsen, Ramussen and Servais, 1999). Furthermore, they also mention that SMEs owner-top managers need international exposure. This statement is also supported by Etemad (1999) who says that to go global, the main actors must have an international exposure, global vision, experience, and education. Not to mention that when going international, the SMEs entrepreneur need to be wanted and triggered which

support Andersson's (2000) findings. Gaining access to the international markets and internationalization is a strategic move for most of the enterprises to help them to be more competitive and allow them for further development. This is because it can help them to identify the potential for the prospective high-growth firm and often a vital move for the SMEs with a large investment. Thus, it supports the resource-based view where they emphasize the main element of internal capability such as firm's unique and internally owned resources as important drivers when achieving competitive advantage (Alvarez and Busenitz, 2001; Barney, 1991; 2001). Plus, as mentioned by Senik, Mat Isa, Md Sham & Ayob (2014) the firm resources include the physical organizational, relation and network resources (Calof & Beamish 1995) and to engage in international activities, the more resources the firm need to have (Almeida Sapienza & Michael 2000). Nonetheless, for the SMEs to have a competitive advantage they need to have a unique resource that are uncommon and non-substitutable. Therefore, it is important for their employers to have an international knowledge when they want to decide to go global. This statement also supports Senik et al., (2014) as they also mentioned that the main key element might include the owner, managers and the decision maker for the firm. Thus, through this paper an in-depth analysis of the understanding process of SMEs in internationalization could provide valuable information to business community.

2.4 Networking

Networking is when a firm creates relations with partners with local knowledge. Effective networks bring information about targeted overseas markets that provides foreign intermediaries what could facilitate quick entry into foreign markets; risk, cost and loss sharing are some of the most important and rewarding elements in well networked relations. Small firms in a network minimally suffer a loss because cost and risks are divided among cluster members, risks and reward are shared, cost reductions are achieved through depending on large firms (Shepherd, Richard and Ronicah, 2013). Besides, the network helps to expose SMEs to international markets through an accumulation of institutional, business and internationalization knowledge. It demands the SMEs to be aware of the current rules and regulations, the network helps them to gain knowledge about the foreign institution. Plus, they also provide the links that conduct the business and market intelligence, which later can help them to decide when, and how to internationalize (Senik et al., 2011). Therefore, research hypotheses were developed.

H0: There is no relationship between the influential factors (external, internal and networking) and SMEs decision to go international.

H1: There is a relationship between external factor and SMEs decision to go international.

H2: There is a relationship between internal factor and SMEs decision to go international.

H3: There is a relationship between networking and SMEs decision to go international.

2.5 Theoretical Framework

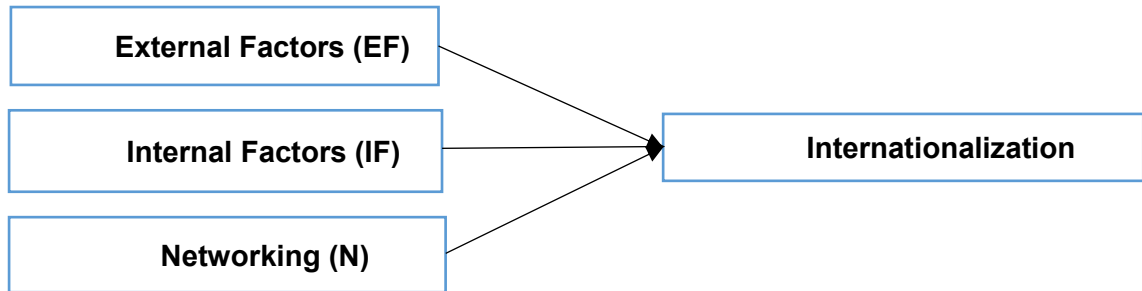


Figure 1: Theoretical Framework adopted from Senik et., al (2014)

3.0 METHODOLOGY

The study was conducted among SMEs services companies who registered under MATRADE. There is a total of 300 SMEs services companies under MATRADE databases. Purposive sampling was used to identify the sample, as it obtains information about the companies from MATRADE list. Thus, the target respondents from the population are 105 SMEs services companies which are basically located in Klang Valley. The method used to conduct the survey is by distributing the questionnaire through blast emails to all the companies listed under MATRADE. Correlation coefficient were used to analyze the data to identify the relationship between the influential factors with the decision to internationalization. Furthermore, multiple regressions were used to assess the most influential factors that will affect the decision to internationalization.

4.0 ANALYSIS

4.1 Reliability

Table 1: Reliability Statistics

Variables	CRONBACH'S ALPHA	(N) OF ITEMS
Internationalization	0.812	7
External Factor	0.907	11
Internal Factor	0.876	16

Networking	0.916	10
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Based on table 1 it shows that it is greater than 0.8 with the result 0.812. Thus, this shows that the data for the dependent variable, which is internationalization, is good and reliable. Then, for the independent variable for external factor, the Cronbach's Alpha was recorded at 0.907 is equal to 0.9. Therefore, the result showed that the data for the independent variable for internal factor is excellent and reliable. Other than that, the results for factor internal factor is higher than 0.8. which suggest that the data is good and valid. Lastly, the result for the independent variable for networking recorded the Cronbach alpha value at 0.916. Therefore, these findings proved that networking is the reliable and valid variable to be accepted in this study. In fact, networking variable was found to be the most valid with Cronbach's alpha vale at 0.916.

4.2 Correlation Coefficient

The analysis was used to measure the strength and the direction that exists between the two variables.

Table 2: Pearson Correlation

		INTERNATIONALIZATION	EXTERNAL FACTOR	INTERNAL FACTOR	NETWORKING
Internationalization	Pearson Correlation	1	0.84	0.788	0.505
	Sig.(2-tailed)		.000	.000	.000
	N	105	105	105	105

Based on table 4.0 above, which is on Pearson correlation coefficient analyses, it shows the summary of the relationship between all the variables. This table illustrates which variables that have the greatest impact on the dependent variables, which is internationalization. This method is to measure the strength of the association between the two variables. From the table, we can see that the external factor has the higher R-value, which is ($r=0.84$) compared to others. Thus, external factor has the most relationship with the internationalization compared to the other two. The internal factor recorded lesser ($r=0.788$) and lastly the least is the networking factor ($r=0.505$). The $N=105$ is the number of total respondents.

4.3 Hypothesis Testing

Based on table 2, hypothesis 1 (H1) were tested, and the result shows that there is a positive high correlation ($p=0.840$) between internationalization and external factor. This

means that change in one variable is strongly correlated with changes in the second variable. With a sample size for this study as shown in the table above is 105 respondents. It is sound to claim that there is a statistically significant relationship between these two variables. Therefore, the external factor does influence internationalization of SMEs.

Furthermore, in analyzing hypothesis 2 (H2), there is a high correlation ($p=0.788$) between internationalization and internal factors. Again, with the sample size of 105 respondents. There is a statistically significant relationship between the two variables. Therefore, it can be concluded that the internal factor does influence internationalization of SMEs.

In the analysis of Hypothesis 3 (H3), there is a moderate correlation ($p=0.505$) was detected between internationalization and networking. Verifying this with 105 respondents, it is safe to concluded that the results suggest that there is a statistically significant relationship between the two variables.

Table 3: Hypothesis Testing Summary

HYPOTHESIS	NULL HYPOTHESIS H0	ALTERNATE HYPOTHESIS HA
H1: There is relationship between external factor and SMEs decision going international.	Rejected	Accepted
H2: There is relationship between internal factor and SMEs decision going international.	Rejected	Accepted
H3: There is relationship between networking and SMEs decision going international.	Rejected	Accepted

4.4 Multiple Regression Analysis

Table 4: Model Summary

MODEL SUMMARY (b)				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.891a	0.794	0.788	0.38407
a. Predictors: (Constant), Networking, External_Factor, Internal_Factor				
b. Dependent Variable: Internationalization				
Table 7.0 Model Summary				

The value of R represents the percentage of variance in the dependent variable, which is explained by the variation in the independent. It is significant to the value that represents our research and how much this study is presenting. In this study, the value of R is (.794), equivalent to 79.4%. Thus, this shows that our study had presented 79.4% and the balance of 20.6% is explained by other factors.

Table 5: ANOVA

ANOVA (b)						
	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	57.538	3	19.179	130.02	.000a
	Residual	14.899	101	0.148		
	Total	72.437	104			
a. Predictors: (Constant), Networking, External_Factor, Internal_Factor						
b. Dependent Variable: Internationalization						

Based on Table 5 ANOVA, the F value is where it predicts respond of the sample. The minimum value is 1 but the study recorded F at 130.02, which predicts to be a good model for forecasting the sample.

Table 6 Multiple Regression

COEFFICIENTS (a)								
MODEL		UNSTANDARDIZED COEFFICIENTS		STANDARDIZED COEFFICIENTS	t	SIG.	95.0% CONFIDENCE INTERVAL FOR B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	0.186	0.169		1.098	0.275	-0.15	0.521
	External_Factor	0.434	0.063	0.518	6.911	.000	0.31	0.559
	Internal_Factor	0.782	0.119	0.715	6.59	.000	0.546	1.017
	Networking	-0.348	0.072	-0.405	-4.867	.000	-0.49	-0.206
a. Dependent Variable: Internationalization								

Beta value under Standard Coefficient was used to test the strength of the relationship that hypothesis is testing. In measuring the strength, Beta value is interpreted as (0.0-0.4 weak), (0.41-0.59 moderate), (0.6 and above is high). Based on Table 6, as external factor increases by one standard deviation, internationalization increase by 0.52 of a standard deviation. Then, as internal factor increases by one standard deviation, internationalization also increases by 0.72 of a standard deviation. Lastly, as for networking increase by one standard deviation, internationalization decreases by 0.40 of a standard deviation. Thus, this shows a negative

relationship. Furthermore, this shows that external factor has a moderate positive relationship towards internationalization. However, for the internal factor, it shows high positive relationship towards the dependent variable, which is internationalization. If the sig value is less than 0.05, hence it shows that they have a significant value. Thus, in this study, all the independent variable is accepting alternate hypothesis and rejecting a null hypothesis. In a nutshell, the analysis shows that internal factor gives the highest impact towards the internationalization.

5.0 DISCUSSION

The study aims to identify the relationship between influential factors and SMEs decision to internationalization. The results show that the external factor gives the greatest impact towards internationalization. Senik et, al (2014) also agree that element such as government support had sparked SMEs. Besides, previous research also mentioned on how external factor can affect their business when going international and support the previous findings on the emergence of early internationalizing firms by Knigh and Cavusgil (2004) as cited by Senik et, al (2010).

Apart from the external factor, an internal factor also showed strong positive correlation. The expert stressed the importance of a firm having strength in terms of its unique resources, sound finances, skilled and experienced employees as mentioned by Senik et, al (2010). Besides, even the learning and knowledge immersion capacity is very narrow for the SMEs, Mtigwer (2005) claimed that competencies rely heavily on the entrepreneurial planning orientation and the flexibility of top managers characteristics mentioned by Senik (2014).

Lastly, previous studies mentioned that networking has a positive relationship between internationalization. As mentioned by Senik et, al (2011), they strongly believe that better access to international opportunities would come from coordinating and facilitating the network process. Senik et, al (2010) cited in Hashim and Hassan (2008) also mentioned that networking is crucial for Malaysia SMEs to expand into foreign markets. The reliance on the networking factors is also important as proven from the research findings by other countries. However, the results showed that there is a negative impact between networking and internationalization.

6.0 CONCLUSION

Overall, the three variables; external factors, internal factors and networking do have relationship with SMEs decision to internationalization. In the pursuit to find the most influential factors is referred from regression analysis was used and the analysis proved that external factors 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,

sound finances, skilled and experienced employees if they would like to decide to start going international.

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