



The Moderating Effect of Geographical Scope on the Relationship between Managers' Prior International Knowledge and Working Experience and International Performance in the Malaysian Halal Food Industry

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ABSTRACT

This study investigates the moderating effects of geographical scope level (measured by number of regional bases) on the relationship between managers' prior international knowledge and working experience and international performance among small and medium enterprises in the Malaysian Halal Food Industry. Previous studies have stressed that experiential knowledge is an essential resource for a firm's internationalization process from both the traditional Stage Theory based on incremental and international entrepreneurship on born global rapid internationalization perspectives. Unfortunately, most of the studies did not empirically investigate the influence of scope level as a moderator on the relationship between international performance and managers' prior international knowledge and working experience. The findings of this study reveal that firms that export regionally (lower scope) have lower experiential knowledge and international performance compared to firms that export globally (higher scope). As a result, there are differences in terms of the internal capability among these two types of small and medium enterprises as a source of their competitive advantage in foreign markets.

ARTICLE INFO

Article history:

Received: 30 April 2012

Accepted: 30 September 2012

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Keywords: Prior international knowledge and working experience, experiential knowledge, international performance, halal food industry

INTRODUCTION

The importance of entrepreneurs has been dealt with in many studies, and the findings reveal a positive relationship between entrepreneurs' international attitude, experience and positive international development (Ibeh & Young, 2001; Westhead *et al.*, 2001). Although there are many studies that have identified the impacts of entrepreneurs and management of firms' internationalization, there is still a need for more research to enhance understanding of small and medium internationalization processes regarding this issue. Furthermore, the international performance of these relatively small firms remains paradoxical as it is difficult to explain how firms with limited financial resources and with little managerial experience (Buckley, 1989; Lu & Beamish, 2001) are able to compete globally against larger and more experienced firms.

According to Casillas *et al.* (2009), prior knowledge may come from very diverse sources, which can be classified into three broad categories: (1) individual level knowledge; (2) company level knowledge; and (3) inter-organization level knowledge. Stage Theory on the incremental internationalization process (Johanson & Vahlne, 1977) argues that foreign experiential knowledge is the prime resource at the firm level. Due to the tacit character of foreign market knowledge, the main source is inevitably through a firm's own operations since this knowledge involves a country-specific environment. As a result, the process of internationalization will develop incrementally starting from

the domestic market, then expanding to a foreign country which has a similar cultural environment with the home market and finally to more distant markets. Therefore, experiential knowledge cannot be easily acquired like objective knowledge.

In the 1990s, however, there was an emergence of new types of SMEs termed as born global firms (BGs) as a result of the globalization phenomenon. By the late 1990s, about a quarter of SMEs around the world derived a major portion of their revenues from foreign countries (Oviatt & McDougall, 1994). Researchers argue that BGs' early and rapid internationalization process can give tremendous impacts to their international performance (Rennie, 1993; Knight & Cavusgil, 1996) compared to incremental internationalization, as proposed by the Stage Theory.

The explanations for the rapid internationalization of SMEs are numerous, and these include entrepreneurial vision and capabilities, prior foreign experience of entrepreneurs (Oviatt & McDougall, 1994), emergence of global demands for goods and services that enable small firms to adopt an international perspective regardless of their age or size (Oviatt & McDougall, 1997). Indeed, previous studies have shown that one element influencing the rapid internationalization of BGs is the level of international knowledge acquired by founders and managers, often prior to start-up of the firms (Madsen & Servais, 1997; McDougall *et al.*, 1994; Nordman & Melen, 2007; Zucchella *et al.*, 2007). The manager's knowledge of foreign

markets is of great importance for BGs as these firms are new and therefore lack an organizational history (Nordman & Melen, 2007). For example, Reuber and Fischer (1997) have demonstrated that internationally experienced top managers are able to move their firm's operations towards internationalization more quickly than their counterpart firms without this competitive advantage. For this reason, firm level knowledge cannot supersede individual level knowledge (Autio, 2005). This study contributes to the body of knowledge on how relatively small SMEs create and use their prior international knowledge and working experience capabilities as a source of competitive advantage for their international performance.

**THEORETICAL BACKGROUND:
A RESOURCE-BASED VIEW AND
INTERNATIONAL NEW VENTURE**

From a theoretical point of view, it is important to understand that SMEs are not a smaller replica of large firms (Tapia *et al.*, 2008). They differ fundamentally from large firms in many ways, and these differences could drive the international performance of SMEs in many ways (Piercy *et al.*,

1998; Lu & Beamish, 2001). In this study, we integrated arguments from the theories of Resource-based view (Barney, 1991) and International new ventures (Oviatt & McDougall, 1994). We found these two theories view managerial prior international knowledge and working experiences as important for SMEs capabilities and international performance.

Resource Based View

Generally, Resource-Based View (RBV) concerns with the relationship between a firm's resources and its competitive advantages. Competitive advantages from the RBV perspective can be achieved by focusing on exploiting a firm's internal characteristics, specifically on its resource profiles (Hamel & Prahalad, 1994; Rumelt, 1994). These resources include assets, capabilities, processes, attributes, knowledge, and know-how possessed by a firm, and can be used to formulate and implement competitive strategies (Rivard *et al.*, 2006). Nevertheless, one of the principal insights of the RBV is that not all resources are equally important or possess the potential to be the source of competitive advantages. The RBV relies on

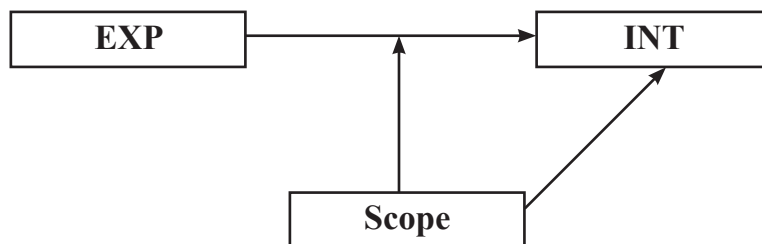


Fig.1. Proposed Theoretical Framework

two fundamental assertions; that of resource heterogeneity (resources and capabilities possessed by firms may differ), and of resource immobility (these differences may be long lasting) (Mata *et al.*, 1995). If a resource possessed by a firm is also possessed by several of its competitors (no heterogeneity), this particular resource will not contribute to its competitive advantage. Heterogeneity is the required condition for obtaining at least temporary competitive advantage. Resource immobility is the required condition for sustained competitive advantage since competitors will face cost disadvantage in obtaining, developing, and using it compared to the firm that has already possessed it. In fact, the RBV literature tends to favour capabilities as the highest order of all firm's resources, and as the most important contributor to the firm's success (Wernerfelt, 1984; Barney, 1986; Amit & Schoemaker, 1993; Peteraf, 1993), since it has the potential to be more significant for profit generators than purchasable resources (Conner, 1991). Capabilities can be defined as an intangible bundle of skills and accumulated knowledge exercised through organizational routines (Teece *et al.*, 1997).

The uniqueness of these capabilities has been conceptualized by RBV theorists (Conner, 1991; Hamel & Prahalad, 1994; Teece *et al.*, 1997) who see learning and knowledge as closely associated with resources and capabilities which can give competitive advantages.

Several scholars (for example, Michalisin *et al.*, 1997; Teece, 2000) also

argue that capabilities such as 'know-how' generate more durable advantages than any other resources of the firm because they are largely complex, specialized and tacit in nature as they are inextricably embedded in a firm's experiences, learning and practices. This knowledge capability is characterized by properties of heterogeneous distribution among firms in the industry and is difficult to duplicate (Barney, 1986; Amit & Schoemaker, 1993; Peteraf, 1993) due to the highest level of causal ambiguity (Galbreath, 2005) and it also provides an advantage in the marketplace (Coates & McDermott, 2002). Similarly, Castanias and Helfat (1991) and Lado *et al.* (1992) suggest that generation of a firm's performance is critically linked (and highly related) to the skill, expertise and know-how of managers. Thus, individual foreign knowledge can help the venture "leapfrog" the incremental processes proposed by Stage Theory.

International New Venture

The phenomenon known as born global by Oviatt and McDougall (1994) has changed the internationalization process whereby firms become international almost immediately after inception. BGs are generally new firms that lack any organizational history. Therefore, they do not possess those deeply-rooted routine, practices and structures that often characterize long-established businesses (Nordman & Melen, 2007). As a result, starting early is an important prerequisite for developing experiential knowledge and contributing to a firm's performance (Zucchella *et al.*, 2007). In

the BG, an analysis on an individual level is important for an understanding of small firms' international behaviour (Andersson & Evangelista, 2006).

Although the size of the firm has now become a secondary issue with much of the research on SMEs, studies by Knight and Cavusgil (1996) and Madsen and Servais (1997) showed that while the term born global might be new, early internationalization is not. Researchers have highlighted that one of the elements influencing the internationalization of BGs is the level of internationalization knowledge acquired by the founders and managers, which is often prior to the start-up of these firms (McDougall *et al.*, 1994; Madsen & Servais, 1997; McDougall *et al.*, 2003). The knowledge found in BGs is thus stored within the individuals starting the firm rather than in the firm's procedures, norms and rules (March, 1991). A few researchers have claimed that a firm's level of knowledge cannot supersede individual knowledge in the BGs (McDougall *et al.*, 1994; Autio, 2005). Hence, prior international knowledge has been cited as a key factor that distinguishes BGs from other exporting firms (Madsen & Servais, 1997; Oviatt & McDougall, 1997; Harveston *et al.*, 2000).

It has also been demonstrated that founders of BGs often have market knowledge built over years from their prior business activities. It is not only the founder but other people in the top management team who can also influence the firm's involvement in foreign markets

(Oviatt & McDougall, 1997). Moreover, the knowledge these managers have about foreign markets, institutions and cultures makes them more aware and also helps them identify and exploit foreign market opportunities. It also gives them confidence, and also reduces their uncertainty about operating in such environments (McDougall *et al.*, 1994; Evangelista, 2005). Hence, it is not surprising that the founders and managers of BGs often have extensive experience in relevant international markets (Rialp *et al.*, 2005). Indeed, other scholars have also supported and further elaborated on these arguments (for example, Knight & Cavusgil, 1996; Crick & Jones, 2000; Andersson & Victor, 2003; Crick & Spence, 2005; Brennan & Garvey, 2008).

Studies have also indicated that it is important for the founder and managers to have experience in the particular industry where their new BGs will be operating (Madsen & Servais, 1997; McDougall *et al.*, 2003). A significant number of BGs have been found to be operating within the high technology industry (Lindqvist, 1991; Harveston *et al.*, 2000; Bell *et al.*, 2001; Bell *et al.*, 2004). However, arguably, BGs may also exist in other industries as well (McDougall *et al.*, 2003), and the founders may have prior experiential knowledge of the international marketplace in their particular industry (Madsen & Servais, 1997; McDougall *et al.*, 2003).

From the above discussion, in the incremental internationalization process based on Stage Theory, the experiential knowledge increases the propensity to

internationalize through the reduction of uncertainty and subsequently raises the perception of opportunity (Johanson & Vahlne, 1977, 1990). However, due to the tacit nature of market knowledge, the main source for acquiring this knowledge is through a firm's own operations in that particular foreign market. In contrast, BGs' views are driven by the premise that early internationalization is to explore an opportunity rather than solving knowledge problems in the foreign marketplace. It can be seen that from the preceding review, experiential knowledge has become a critical concept in both traditional incremental and BG studies (Johanson & Vahlne, 1977, 1990; McDougall *et al.*, 1994; Madsen & Servais, 1997; McDougall *et al.*, 2003; Nordman & Melen, 2007). However, if BGs can generate competitive advantages from their founders' and managers' knowledge, they should be able to internationalize just like a larger firm (Gassmann & Keupp, 2007). As such, BGs do not need to wait such a long time like in the traditional learning process in the Stage Theory to progress gradually before they can enter the foreign market. Meanwhile, Knight and Cavusgil (2005) argue that the earlier the firm internationalizes, the better its ultimate performance.

Hypothesis 1: Scope moderates the relationship between SMEs' experiential knowledge and international performance. The correlation is stronger for high scope than for low scope.

METHODOLOGY

Sample

We selected the halal food industry for our analysis because it is an important contribution to Malaysia's economy as the government plans to make this country global halal hub (IMP3, 2006-2020). We consider a firm to be micro, small and medium-sized when its number of full-time employees is less than five, between five and 50, and between 51 and 150, respectively, for the manufacturing sector (SME, Annual Report, 2007). Our sample thus comprised of producers and at the same time, exporters, drawn from the SME exporters listed with Malaysia Exporters of Halal Products directory (MATRADE) and Halal Development Corporation directory (HDC). The above criteria were intended to ensure that our sample would contain firms that are involved in the halal food industry and are SMEs compared to large MNCs. These databases yielded 400 export firms and all are SMEs. However, only 300 companies were available as the respondents for this study after confirming the current status of their business.

The unit of analysis is the firm, which is represented by either SMEs' founder or manager currently responsible and in-charge of the international/export activities for the firm.

Data Collection Method and Instrument

The data for this study were collected through mail surveys as well as through the Internet using a standardized structured self-

administered questionnaire. Questionnaires are essential to and most directly associated with survey research (Babbie, 2005). The questionnaire consisted of four sections with the following headings: “Firm’s internal capabilities,” followed by “Firm’s external environment”, “Firm’s background”, and “Export performance issues”. From 300 questionnaires sent out, 195 questionnaires were received from the respondents but the usable questionnaires were only 174. Hence, the response rate was 58% (174 firms).

Variable Measurements

Dependent Variable - International Performance

International performance (INT) was measured with a 5-point Likert scale using mean of three items; namely, overseas sales volume, sales growth (turnover), and profitability share based on subjective performance measurements proposed by Crick *et al.* (2006). According to Jantunen *et al.* (2008), subjective performance measurements are important since management evaluation of a firm’s performance seems to be guided more by their subjective perceptions than by objective measurement (Madsen, 1989). Additionally, a single criterion to measure international performance is inappropriate (Crick *et al.*, 2006), and more comprehensive measurements will be needed looking from the country origin perspective (Wheeler *et al.*, 2008). The measurements were adopted based on the study by Crick *et al.* (2006) in the UK using the 5-point Likert scale of 1=very badly to 5=very well.

Independent Variable - Prior International Knowledge and Working Experience

The 11 items in this construct are adopted from the study by Zucchella *et al.* (2007) in Italy on founders’/managers’ international and prior work experiences. Their sample size consisted of SMEs operating in different industries. The scale measurement was modified from ‘yes’ or ‘no’ to the 5-point Likert scale using anchors of 1=strongly disagree, to 5=strongly agree. Wording for ‘entrepreneur’ was changed to ‘founder/manager’ to be consistent with the literature review and other questions in the same questionnaire.

Moderator – Scope Level

There are numerous measurements for scope in the literature review. For example, past studies have measured geographical scope based on the number of countries, cultural cluster, triad market and geographical regions (Noor Azlin, 2011). In this study, the geographical scope measurement was adapted from the studies conducted by Zucchella (2002) and Chetty and Hunt (2003, 2004). They recommended the number of regions as a basis to differentiate between these two types of internationalization processes (incremental versus rapid). Also adopting from Noor Azlin’s study (2011), this paper classified low scope (regional firm) as those that export to between one and three regions (regional firms), and high scope as those that export simultaneously to four regions and above (global firms).

The existence of moderating effect implies that the relationship between two variables (e.g. X and Y) varies as a function of the value of a third variable (e.g. Z) labelled as a moderator (Zedeck, 1971). A moderator explains when or under what conditions X causes Y, or when the relationship is likely to be stronger. For our study, a moderated hierarchical regression analysis (Cohen & Cohen, 1983) was used to introduce the moderating effects in multiplicative ways. Before creating the multiplicative terms, we centred both the independent variables and the moderating ones, thus avoiding the multicollinearity problem (Venkatraman, 1989).

Data Analysis

The analysis of quantitative data was based on a parametric method using the Moderated Multiple Regression (MMR) analysis. MMR is an extension of a multiple regression equation that includes additional predictors carrying information regarding the moderating effect (Aguinis, 2004). Scope is hypothesized by binary grouping of moderator variables in which each moderator has two categories for the product term. The coding scheme used was the dummy coding for each level of speed, scale and scope (0 = low, 1 = high). According to Aguinis (2004), this coding scheme is recommended because of its simplicity and ease of interpretation of the results. The specific test was used to examine whether all the sub-group variances were equal based on Levene’s Test of Homogeneity of Variance. Based on the results of Levene’s

Test, the observed significant level for the international performance was more than alpha level of 0.05. The result indicates the sub-group variances of these two variables, based on low and high scopes, were equal.

Descriptive statistics presented in Table 1 show that the majority of the firms in our sample, 111 firms, exported to low scope between one and three regions (63.8%) and 63 firms (36.2%) exported to four regions and above at the global scope. The results indicate that there was a great difference in terms of the number of geographical scope (foreign markets) among SMEs, accounting for almost 28.0% difference between the low and high scope levels.

TABLE 1
Sample Composition by SMEs Characteristics (n=174)

| SMEs Characteristics | Frequency | % |
|----------------------------|-----------|------|
| Number of regions exported | | |
| 1 regions - 3 regions | 111 | 63.8 |
| 4 regions and above | 63 | 36.2 |

RESULTS

Scope Level Moderates the EXP-INT Relationship

Table 2 shows the results of the moderating effect of scope on the relationship between international knowledge and work experience (EXP) and international performance (INT). In particular, the table shows for Model 1, $R = .398$ $R^2 = .158$, and $F(2, 171) = 16.063$, $p = .0001$. This R^2 means that 15.8% of the variance in INT is explained by EXP and scope. The interaction effects of the scope are differentiated into those of low scope and high scope. Model 2 shows the results after

the product term has entered the equation. As shown in Table 2, the addition of the product term results in R^2 change of 0.020, $F(1, 170)=4.209, p=.042$. The significant differences between $R^2=0.158$ in Model 1 and $R^2 = 0.178$ based on the F statistic are identical to the t statistic for the regression coefficient for the product term (i.e. $p=.042$) in Model 2, and this supports the presence of a moderating effect. In other words, the moderating effect of scope explains 2 % of variance in INT increases above and beyond the variance explained by EXP and scope.

Table 3 describes the unstandardized coefficients value for the regression equation for Model 1 resulting regression equation, as follows:

$$\text{INT} = 1.916 + .302 \text{ EXP} + .562 \text{ Scope} \dots \text{E1.1}$$

The coefficients for both EXP and scope in Model 1 are statistically significant at $p = .0001$ level. Equation 1.1 demonstrates that for one point increase in EXP, INT is expected to increase by 0.302, given that the scope is held constant. The regression coefficient associated with scope indicates that the differences in INT increase between the SMEs from the low and high scope are 0.562, provided that EXP is held constant. Table 2 also includes further information regarding the regression unstandardized coefficients after the product term has entered the equation. The equation is as follows:

$$\text{INT} = 2.534 + .120 \text{ EXP} + -1.134 \text{ Scope} + 0.472 \text{ EXP. Scope} \dots \text{E 1.2}$$

Results from Equation 1.2 lead to the conclusion that there is a moderating effect of scope on the EXP-INT relationship. Equation 1.2 further demonstrates that there is a 0.472 difference between the slope of INT increase on EXP between the low scope and the high scope SMEs. This result indicates the presence of the moderating effect of scope on the EXP-INT relationship. For further descriptions on the moderating effect, the regression equation for each group was constructed to produce the graph of the EXP-INT relationship for each of the low scope and high scope SMEs. Based on the code assigned for scope (0= low scope, 1= high scope), results are given in the following equations:

$$\begin{aligned} \text{INT (Low scope)} \\ &= 2.534 + 0.120 \text{ EXP} + -1.134 \text{ Scope} \\ &\quad + 0.472 \text{ EXP. Scope} \dots \text{E1.3} \end{aligned}$$

$$\begin{aligned} &= 2.534 + 0.120 \text{ EXP} + -1.134 (0) \\ &\quad + 0.472 (0) \\ &= 2.534 + 0.120 \text{ EXP} \end{aligned}$$

$$\begin{aligned} \text{INT (High scope)} \\ &= 2.534 + 0.120 \text{ EXP} + -1.134 \text{ Scope} \\ &\quad + 0.472 \text{ EXP. Scope} \dots \text{E1.4} \end{aligned}$$

$$\begin{aligned} &= 2.534 + 0.120 \text{ EXP} + -1.134 (1) \\ &\quad + 0.472 \text{ EXP} (1) \\ &= 1.40 + 0.592 \text{ EXP} \end{aligned}$$

TABLE 2
Model Summary for INT on EXP for Scope

| Model | R | R ² | Adjusted R ² | Std. Error of the Estimate | Change Statistics | | | | |
|-------|-------------------|----------------|-------------------------|----------------------------|-----------------------|----------|-----|-----|---------------|
| | | | | | R ² Change | F Change | df1 | df2 | Sig. F Change |
| 1 | .398 ^a | .158 | .148 | .83391 | .158 | 16.063 | 2 | 171 | .000 |
| 2 | .422 ^b | .178 | .164 | .82619 | .020 | 4.209 | 1 | 170 | .042 |

- a. Independent variables: (Constant), scope, EXP
- b. Independent variables: (Constant), scope, EXP, EXP.Scope
- c. Dependent variable: INT

TABLE 3
Coefficients for INT on EXP for Scope

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-------|------------|-----------------------------|------------|---------------------------|--------|-------|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 1.916 | .392 | | 4.886 | .0001 |
| | EXP | .302 | .113 | .194 | 2.666 | .008 |
| | Scope | .562 | .136 | .300 | 4.124 | .0001 |
| 2 | (Constant) | 2.534 | .491 | | 5.155 | .0001 |
| | EXP | .120 | .143 | .077 | .838 | .403 |
| | Scope | -1.134 | .838 | -.605 | -1.354 | .178 |
| | EXP.Scope | .472 | .230 | .953 | 2.051 | .042 |

- a. Dependent variable: INT

Based on the values of EXP ($M= 3.510$, $SD=.581$), the values of 4.09 (1 SD above the mean) and 2.93 (1 SD below the mean) produced the graph shown in Fig.2 below. As expected, the examination of Fig.2 showing the EXP-INT relationship for each of the groups separately indicates that the relationship is stronger (i.e. steeper slope) for SMEs from the high scope compared to the low scope SMEs. Based on this result, this study found support for H_1 , that the correlation between EXP and INT is stronger for higher scope than lower scope SMEs. Thus H_1 receives full support.

DISCUSSION

Fig.2 reveals that both regional and global firms rely on prior international and work experiences of their managers. However, from this figure, it is seen that the regional firms have lower prior international and work experience that lead to lower international performance compared to global firms. Arguably, traditional SMEs have been found and labelled to have a relatively long domestic business experience before proceeding through the stages of internationalization due to resource constraints. Thus, they possess

little internationalization capability at the very beginning of internationalization (Johanson & Vahlne, 1977, 1990). There is a possibility that for regional firms hiring of skilled managers or additional managers with international experience is not really crucial at this level and also it is not an easy task since it can become extremely costly to the owners in terms of salary expenses. In fact, in many cases, the managers and key personnel rely on their own abilities and skills from their working and international experiences (Luostarinen & Gabrielsson, 2006). Another possibility is that some of the firms are from family businesses, where growth is not their main objective, i.e., to maintain their control by holding managerial positions or as shareholders of the firm.

For global firms, on the other hand, it is likely for them to have higher prior international experience by their own founders/managers that helps to be more effective in facilitating the achievement

of business objectives due to their higher level of expertise. Generally, these attributes may provide a basis for resource advantage against rival firms. It is also expected that the managers of global firms are able to hire highly experienced managers to act on behalf of their firms due to their firms' age and volume of business expansion, specifically to different regions/psychological distance. Thus, it is more likely that with prior experiences in international and business knowledge, they can help reduce costly mistakes and are more effective in facilitating the achievement of the firm's business objectives and international performance. In addition, there is also a possibility that these managers come from well-established family business backgrounds with consumers, agents or subsidiaries in foreign markets. It will require them to always travel overseas for their businesses. As a result, the knowledge these managers have of foreign markets, institutions and

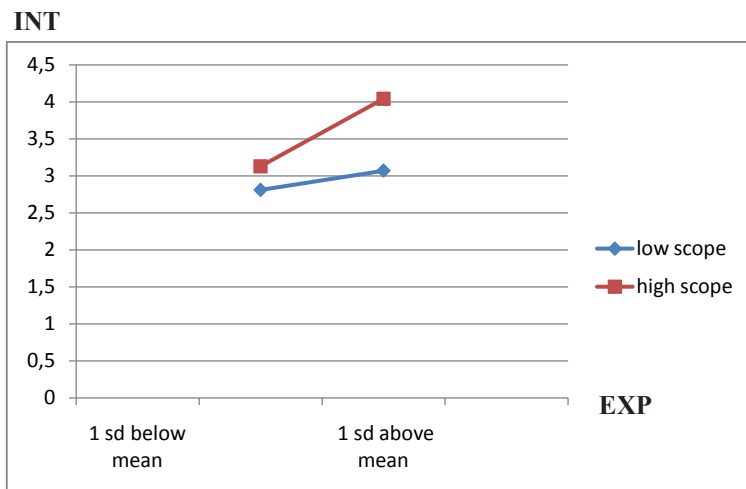


Fig.2: Slopes for International Performance on International and Working Experience for Low and High Scope

cultures makes them more aware and helps them to identify and exploit foreign market opportunities. It also gives them confidence, and helps to reduce their uncertainty about operating in such environments (McDougall *et al.*, 1994; Evangelista, 2005).

The findings of this study, based on Fig.2, contradict the literature in which managers' prior international knowledge and working experience have been cited as key factors that distinguish BGs from other exporting firms (see Rennie, 1993; Oviatt & McDougall, 1994; Knight & Cavusgil, 1996; Madsen & Servais, 1997; Harveston *et al.*, 2000; Andersson & Wictor, 2003; Nordman & Melen, 2007) since these firms are new and therefore lack organizational history (Nordman & Melen, 2007). The results in this current study indicate that both regional and global firms require this experiential knowledge capability in foreign markets but the differences are based on the level of experiential knowledge, where global firms have higher capability compared to regional firms. There is a possibility that global firms operating in a higher number of geographical scope and more diverse markets, and are also more knowledgeable in terms of foreign markets and cultural requirements in addition to their halal product status. As a result, global firms have better competitive advantage in terms of tacit knowledge compared to regional firms in producing and exporting their halal food products to meet these specific target consumers in diverse markets. The findings partially supported that of Gassmann and Keupp (2007) who argued that if BGs

could generate competitive advantages from managers' prior knowledge, they should be able to internationalize just like a larger firm. The findings also support the role of competitive advantage based on the managerial tacit knowledge capability, as proposed by both theories - RBV and international new venture. The findings support the results by Zucchella (2002), whose study used regions rather than countries as a basis of competition. The findings also corroborate with the study by Ruzzier *et al.* (2006), who defined the term 'globalization' as a reference to a stage in which a firm's operations are managed on a global scale and not just in a few selected countries.

LIMITATIONS AND DIRECTIONS FOR FUTURE RESEARCH

This study focused on one industry in a single country sample, where data were collected from the Malaysian halal food industry; one of the emerging industries, and from a developing country perspective. It would be productive for future researchers to investigate the internationalization process of firms in other halal industry settings such as pharmaceuticals, cosmetics and tourism, among other.

Secondly, due to limitations of time and resources, this study only focused on SMEs' internal capabilities based on managers' prior international knowledge and working experiences. It is also interesting to look at other managers' capabilities such as global mindset, networking and international entrepreneurial orientation.

The findings indicate that there are two other types of firms based on their scope level, termed as 'regional versus global' firms that adopt incremental versus rapid internationalization process. The characteristics for regional firms are similar to the Stage Theory based on the traditional incremental process, but at a later stage, internationalization processes are characterized by born globals that are similar to global firms in this study. Further qualitative studies could be conducted to generate more knowledge to explain this phenomenon and to differentiate these two types of groups based on their experiential knowledge as a source of competitive advantage, geographical scope level, and international performance. Another alternative would be to conduct further research that distinguishes these groups based on their heterogeneous resources such as learning method (reactive versus proactive), types of products offered (homogeneous versus specialty products), growth strategy (within regional or between regions), and level of manager's capabilities as a mediating variable.

CONCLUSION

The findings revealed that there exist differences in terms of the level of managers' international experience and working experience among SMEs that export regionally (low scope) compared to those SMEs who are global (high scope). As a result, global SMEs have better managers'

capability and international performance compared to regional SMEs. The managers need to be aware of important issues such as their own capabilities, which could be either a main barrier or a motivation in the internationalization process. Perhaps, the best investments that SMEs can make in this context are to strengthen their human resources capabilities, hiring new qualified personnel with international working experience background to join their management team or appointing outside expertise as advisors. There should also be more training programmes or on-the-job training to gain foreign market experiential knowledge and confidence among the staff, apart from reducing the feelings of uncertainty about operating in these new and diverse markets (McDougall *et al.*, 1994; Evangelista, 2005) and complying with the syariah requirements imposed by the government in the halal food industry.

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