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**STRATEGIC PLANNING PRACTICES, ENTREPRENEURIAL  
ORIENTATION, ENVIRONMENTAL UNCERTAINTY AND  
INTERNATIONALIZATION OF SMALL AND MEDIUM  
ENTERPRISES**



**MOHD FAUDZI MUSA**

**UUM**  
Universiti Utara Malaysia

**DOCTOR OF BUSINESS ADMINISTRATION  
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**STRATEGIC PLANNING PRACTICES, ENTREPRENEURIAL  
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INTERNATIONALIZATION OF SMALL AND MEDIUM  
ENTERPRISES**

By

**MOHD FAUDZI MUSA**



**UUM**  
Universiti Utara Malaysia

**Dissertation submitted to  
Othman Yeop Abdullah Graduate School of Business  
Universiti Utara Malaysia in partial fulfillment of the  
Requirement for the Degree of Doctor of Business Administration**

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## ABSTRACT

The understanding on factors contributing to internationalization of small and medium enterprises (SMEs) in Malaysia is still lacking, and that the SME contribution to the country's export is still small compared to those neighbouring countries and most of the developed countries. Therefore, the objective of this study is to empirically test the relationships between strategic planning practices, entrepreneurial orientation, and environmental uncertainty on the internationalization of SME's in Malaysia. This study emanated from the fact that there is limited study in this area and more research should be conducted especially in the context of Malaysia. Based on the theoretical consideration a model was proposed and hypotheses were developed. Survey questionnaires were used in the data collection and a total of 250 useable responses were received from the exporting SMEs in Malaysia. Partial Least Squares Structural Equation Model (PLS-SEM) was employed in the data analysis. The findings revealed that strategic planning practices and entrepreneurial orientation have significant and positive relationships with the internationalization of SMEs. The results further found the moderating role of environmental uncertainty in the relationships between strategic planning practices and internationalization as well as between entrepreneurial orientation and internationalization of SMEs. These findings also support the resource based view which emphasizes the importance of internal capability of a firm as an influenced driver in achieving export performance and competitive advantage. Thus this study sheds some light on an understanding and evaluation of the relationship between strategic planning practices, entrepreneurial orientation and environmental uncertainty on the internationalization of SMEs in Malaysia. Finally, the study concludes with some theoretical and practical implications as well as the limitations and directions for future research.

**Keywords:** Small and medium enterprises (SMEs), strategic planning practices, entrepreneurial orientation, environmental uncertainty, internationalization

## ABSTRAK

Kefahaman tentang faktor-faktor yang menyumbang kepada pengantarabangsaan perusahaan kecil dan sederhana (PKS) di Malaysia masih berkurangan, dan sumbangan PKS kepada eksport negara masih di tahap yang rendah berbanding dengan negara jiran dan kebanyakan negara-negara maju. Oleh itu objektif utama kajian ini adalah untuk menguji secara empirik hubungan-hubungan antara amalan perancangan strategik, orientasi keusahawanan dan ketidakpastian persekitaran ke atas pengantarabangsaan PKS di Malaysia. Kajian ini juga dilakukan kerana masih wujud kekurangan kajian dalam bidang ini dan lebih banyak kajian perlu dijalankan khususnya dalam konteks Malaysia. Berdasarkan keperluan teori satu model telah dicadangkan dan hipotesis-hipotesis dibangunkan. Soal selidik tinjauan digunakan untuk memungut data dan sejumlah 250 maklum balas boleh guna diterima daripada PKS yang terlibat dalam pengeksporan di Malaysia. *Partial Least Square Structural Equation Model* (PLS-SEM) telah digunakan untuk menganalisis data. Dapatan kajian menunjukkan amalan perancangan strategik dan orientasi keusahawanan mempunyai hubungan positif dan signifikan dengan pengantarabangsaan PKS. Dapatan kajian seterusnya mendapati ketidakpastian persekitaran menyederhana hubungan di antara amalan perancangan strategik dengan pengantarabangsaan, dan di antara orientasi keusahawanan dengan pengantarabangsaan PKS. Dapatan ini menyokong pandangan berasaskan sumber yang menekankan kepada kepentingan keupayaan dalaman sesebuah firma sebagai penggerak untuk mencapai prestasi eksport dan kelebihan persaingan. Justeru, kajian ini memberi pendedahan kepada kefahaman dan penilaian tentang hubungan antara amalan perancangan strategik, orientasi keusahawanan dan ketidakpastian persekitaran ke atas pengantarabangsaan PKS di Malaysia. Akhir sekali kajian ini dirumuskan dengan implikasi teoretikal dan praktikal beserta dengan limitasi dan arah kajian pada masa hadapan.

**Kata Kunci:** Perusahaan kecil dan sederhana (PKS), amalan perancangan strategik, orientasi keusahawanan, ketidakpastian persekitaran, pengantarabangsaan

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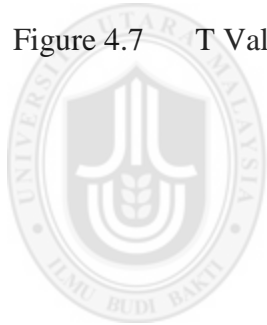
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# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of Study

The importance of Small and Medium enterprises (SMEs) in economic developments has been established in almost every country in the world, and in particular Malaysia where the role of SMEs has long been recognised as a major contributor to the nation's economy and plays as major contributor to employment and social growth. Over 50 per cent of total workforces in Malaysia were actually provided by SMEs, in which SMEs accounted for about 99.2 per cent of total business establishments (Singh & Mahmood, 2014). However, the overall contribution to the economy was only 33 percent of the Gross Domestic Products (GDP) and 19 per cent of exports (Bakar, Mahmood & Ismail, 2015; Singh 2013). This contribution of SMEs to the GDP is relatively low when compared with developed countries and other developing nations such as Japan (53%), Germany (53%), United Kingdom (51%), Korea (49%), Singapore (49%), Vietnam (45), Thailand (38%), Indonesia (58) and Philippines (36%). Under the SME Master Plan 2012 – 2020, SMEs have been targeted to contribute 41 percent of GDP (ERIA, 2014).

In terms of exports, SMEs contribution is still relatively low, and the exporters are mainly in the manufacturing sector (57.6%), services (40.6%) and agriculture

(1.8%). Based on a report by MATRADE (Malaysia External Trade Development Corporation) 80 percent of Malaysian exports are contributed by 20 percent of all companies, whereas 80 percent of the companies that used MATRADE services only contributed 20 percent to the economy. This shows that 80 percent of Malaysian businesses that made up of small and medium enterprises (SMEs), contributed insignificantly in exporting activities which readily shows that they need support to reach out to the overseas market.

Table 1.1  
Malaysian Export Percentage (%) To The World

Exporters	Merchandise trade (million us\$)	Share in world total exports	Commercial services trade (million us\$)	Share in world total exports
China	1,578,265	10.40	170,686	4.40
United States	1,278,043	8.40	518,899	14.20
Japan	770,719	6.50	139,858	3.80
Korea	466,000	3.90	82,000	2.20
Singapore	352,832	3.00	112,000	3.00
Malaysia	199,498	1.70	33,934	0.90
Thailand	195,433	1.60	33,108	0.89
Indonesia	158,481	1.30	16,242	0.40
Philippines	51,436	0.40	10,101	0.30

Source: [http://www.wto.org/english/res\\_e/statis\\_e/its2010\\_e/its2010\\_e.pdf](http://www.wto.org/english/res_e/statis_e/its2010_e/its2010_e.pdf)

From the world trade statistic database (www.wto.org) as shown in Table 1.1, Malaysia's percentage contribution to world total exports is 1.70% and 0.90 % for merchandise and services respectively. Thailand percentage contribution to world

total export is 1.60% and 0.89% for merchandise and services respectively, while Indonesia's percentage contribution to world total export is 1.30% for merchandise and 0.40% for services and Philippines is 0.40% for merchandise and 0.30% for services. However, Singapore has a higher percentage contribution to world export that is 3.00% and 3.00% for merchandise and services respectively, which is the highest among the South East Asian country. Nonetheless it is lower than Japan which is 6.50% and 3.80% for merchandise and services respectively and followed by South Korea, which is 3.90% and 2.20% for merchandise and services respectively. On the other hand, China which has liberalized its economy since early 20<sup>th</sup> century has the highest percentage contribution to total world export, 10.40% for merchandise and 4.40% for services respectively.

The stated figures show that export or internationalization plays an important role for Malaysia to gain higher economic growth and to become a developed nation by 2020. According to Oviatt and McDougall (1994) and Westhead (2001) life duration and size are not the main reason for the SMEs to pursue internationalization, and for any SMEs going for internationalization they are able to enhance their knowledge, skills, and diversify their resources for business growth and performance (Chelliah, Sulaiman, & Yusof, 2010). However a study found that Malaysian SMEs are facing with the main barriers for going internationalization such as unsure whether internationalization will give them profit or not due to uncertainties and difficulties in foreign market, concern over

their lack of experience, not getting enough network, risk and uncertainty of foreign operations and languages differences and cultural (Abdullah & Zain, 2011). Based on this finding it is safe to conclude that organizational knowledge, capability and understanding about risk and opportunities in international markets are the main reasons for the non-internationalization of many Malaysian SMEs. Therefore, in order to increase the involvement of Malaysian SMEs to internationalization the top management and policy makers should give more emphasis in building internal strategic resources within the firms such as strategic planning practices and inculcating entrepreneurial behaviour. Senik, Isa, Scott-Ladd and Entekin (2010) identified that, apart from networking, firms factors such as unique resources and capabilities are important drivers to the internationalization of SMEs in Malaysia. Singh and Mahmood (2014) posited that owner/managers with more information would have better position in making decisions in selecting appropriate exporting strategies to achieve competitive advantage and enhance performance.

According to the Resource Based Theory (RBT) a firm's internal resources determine its export performance and by paying more attention on internal resources the firm will be able to improve its performance and support strategies (Peng 2001; Barney, 1991; Penrose, 1959; Peteraf, 1993). Similarly, SMEs can use this strategy in creatively finding the opportunities outside their domestic market and taking advantage to exploit it and thus to develop a competitive advantage (Zahra & George, 2002). This involves making choices between

competing expansions and selecting strategies that depend on the market situation, firm's resources and managerial goals and vision (Reid, 1983). Given the internationalization of business today, exporting has become an important and necessary strategic option, and it is important for the SMEs to start looking into overseas market opportunities for the capture of and sustainability of competitive advantage (Tiang, 2015). Thus, there is a need to understand the factors that may influence SMEs into going to export market as research on SME internationalization in Malaysian context is still relatively new. The current business environment competes on the basis of firm's ability and available resources including its skills, expertise and firms ability to leverage its competitive capabilities and strategically mobilised their valuable assets. A firm's resources and capabilities in organization processes that take place will improve the firm performance particularly in formulating strategy and in determining the profit. Based on the resources based theory, the collection of a firm's internal resources and capabilities may generate competitive advantage that leads to superior performance (Singh & Mahmood, 2014).

## **1.2 Problem Statement**

Many SMEs are involved in the international business and they are experiencing varying degree of success in terms of growth and economic return. Different scholars have suggested various theories to confirm the different factors that might influence firm performance and argued that interactions and dynamic

adjustment between environments, strategies, structures, and resources can become primary determinants of the firm performance. Porter (1985) in his research detailed that firms' performances are different and varying in degree and they also gain different types of competitive advantage. However, studies have shown that an organization that employs strategic orientations such as entrepreneurial orientation, and strategic planning practices achieve superior performance and expansion than those that are traditional and conservative (Baker & Sinkula, 2007; Okpara & Kabongo, 2009b). It is argued that a strong strategic orientation facilitates a sense of balance between incremental and far-reaching innovation by changing main concern towards far-reaching innovative actions. Strategic orientations are also responsible for success or failure in business because they are capabilities that show the strategic direction that an organization follows to achieve competitive advantage. Thus some studies have incorporated the elements of strategic orientation in relation to the firm internationalization such as in export operation, export performance or international success (Namiki, 1989; Styles, Patterson & Ahmed, 2008; Lages, Silva & Styles, 2009; Boehe & Cruz, 2010). Hitt (2005) proposed for an integration of entrepreneurial and strategic thinking, and this strategic integration could create better value and enhance entrepreneurial firm to gain better performance. Ireland, Hitt and Sirmon (2003) asserted that the field of study on strategic management and entrepreneurship was developed separately despite the fact that both field of studies focus on understanding the firm's business performance and expansion. Similarly, according to Wheelen and Hunger (2008) strategic management

becomes more important when SMEs are facing with uncertainty, as unlike large organization, SMEs have less access to resources (as cited in Hin, Kadir & Bohari, 2013). Venkatraman and Saraswathy (2001), and Amit and Schoemaker (1993) have also suggested that both studies of strategic management and entrepreneurships are essential in current globalization era. They argued that firms are constantly monitoring and scanning and adapting to business environmental change and thus are exploiting the opportunities in the local and international markets in order to the create wealth for the firms. Ireland, Hitt, Camp, and Sexton (2001) and Barringer and Bluedorn, (1999) concurred that in the competitive environments, the ability of the firms of any sizes to increase their entrepreneurial behaviour and strategic actions are necessary for them to flourish and prosper. According to Barringer and Bluedorn (1999) there are four important dimensions of strategic planning practices that could enhance the firms international entrepreneurships that is; environmental scanning intensity, planning flexibility, planning horizon and locus of planning. They further suggested the replication of the developed scales to any research that interface between strategic management and entrepreneurship intensity. Murray (1984) had empirically tested that the entrepreneurial behaviour of the firms could be increased with the systematic implementation of the strategic planning practices.

Strategic planning practices are needed for SMEs to survive in the dynamic business environments and in the era of globalization (Dess & Lumpkin, 2005). Those firms that formulate their long term strategies practices could also facilitate

and increase the entrepreneurial behaviour and attitudes (Ahuja & Morris Lampert, 2001; Zahra, 1993). These entrepreneurial attitudes and behaviours are necessary elements for the firms to prosper and grow in the current business environment (Covin & Slevin, 1989). Thus it has been suggested that these firms need to understand the factors or practices internally and also at the organizational level that can enhance the entrepreneurial behaviour and attitude, and the renewal of idea and managing change and transformation (Guth & Ginsberg, 1990; Zahra, 1991; Covin & Selvin, 1991; Miller, 1983)

Morris, Kuratko and Covin (2010) postulated that the conditions of globalized business environment demand firms to adopt entrepreneurial strategies. McGrath and Mc Millian (2000) observed that the current conditions of global economic environment are differing from those previously faced by most firms especially SMEs and it has an impact to the firm performance. The current environment requires firms to adopt or implement entrepreneurial strategies as strategic actions to success (Hosseini, Dadfar, & Brege, 2012).). These entrepreneurial strategies are actions that suggest firms aligns its process, practices and managerial activities, relook and restructure to the existing organization and make them more innovative towards new markets (Dhliwaya,2014). As Amit, Brigham and Markman (2000) observed, “entrepreneurial strategies allow people to be innovative, creative, and responsible for decisions that they make” (as cited in Meyer & Heppard, 2000, p. 10). Smart and Conant (1994) argued that the entrepreneurial strategic process involving strategic intentions and top



management's actions. Firm's competencies heavily rely on the entrepreneurial planning and flexibility of top manager characteristic (Mtigwe, 2005)

Past research on entrepreneurial behaviour had focused on the appropriate motivation and reward (Antoncic & Hisrich, 2004), willingness and ability to undertaking higher risk for higher return and risk taking (Antoncic & Hisrich 2001), the involvement of top management in supporting the business venture (Kuratko, Montagno & Hornsby, 1990) and the appropriate availability of firms' resources (Zahra, Kuratko & Jennings, 1999). However, few studies have examined strategic planning practices and entrepreneurial orientation to improve competitive advantage at the internationalization stage (Lumpkin & Dess, 1996, 2001; Dess, Lumpkin & Covin, 1997). Evidence shows that both elements of entrepreneurial orientation and strategic planning practices are important in creating synergy and improved performance of the firm (Wiklund & Shepherd, 2005). Of those few studies on international entrepreneurship, some utilised the organizational characteristics, environmental factors and firm's strategies as factors to explain the degree of internationalization, and while much has been learned from this effort, important issues remain unsolved because of limitation and shortcomings (Zahra & George, 2002). According to Antoncic and Hisrich (2001) most of the proposed frameworks on international entrepreneurship are exhaustive and insufficient because these researches did not focus on the interactions among constructs and dimensions and as such many questions remain unanswered. Chelliah, *et al.*, (2010) in their study on internationalization and

performance have observed some differences on findings for those studies in the United States, Europe and Malaysian environments. They also suggested for more studies to be conducted among firms in Malaysia. Senik, Isa, Sham and Ayob (2014) found that internal factors such as SME's organizational capabilities and top management play an important role in influencing the internationalization of Malaysian SMEs. They argued that organizational capabilities and top management abilities are necessary in order to achieve a competitive advantage of firms especially when operating in the uncertainty environment. Bakar, *et al.*, (2015) acknowledged the importance of internal organizational capabilities and relationship with competitive advantage of firms. However, the study conducted by Che Senik *et al.* (2014) was mainly focused in developing the integrative model for internationalization process of SMEs by combining the five perspectives of internationalization, and it did not specifically focus on the relationship among constructs and dimensions. Singh and Mahmood (2013) called more research should be done on SME export performance and studies that examined SMEs from the strategic management perspective particularly in Malaysia are still rare (Hin et al., 2013).

There are also works of Zahra and George (2002) that put forward the moderating effect of environmental uncertainty on the performances of cross border firms. Apparently, the reasons of this inclusion were numerous. Chakravarthy (1997) suggested that as firms coping with dynamic business environment require new approach to competitive strategy, firms must also be able to balance their

capabilities for leveraging, strengthening and diversify their skills and assets in tandem with market demand. As firms moved towards maturity, they were exposed with new entrances and complexities, among which is environmental uncertainty in view of differences in economics, legal and cultural dimensions

The above discussion has revealed the paucity of studies being conducted on the relationship between entrepreneurial orientations, strategic planning practices, environmental uncertainty and firm internationalization especially among SMEs in developing countries such as Malaysia. Thus investigating the various factors that influence the internationalization of SMEs in the Malaysian will fill the gap in the literature. There is also a proposal for the study to utilize the Integrated Model of International Entrepreneurship developed by Zahra and George (2002) as its guide. The causal model was developed and tested by Zahra and George (2002) named “Integrated Model of International Entrepreneurship” (IMIE) that links antecedents, types, and outcomes of international entrepreneurship as shown in Figure 1.1 below. The core aspects of independent variables (IVs) of the IMIE are organizational, strategic factors, and external environmental factors. Zahra and George’s integrated model delineates how these independent variables affect international entrepreneurship activities and consequently the competitive advantage of the firm.

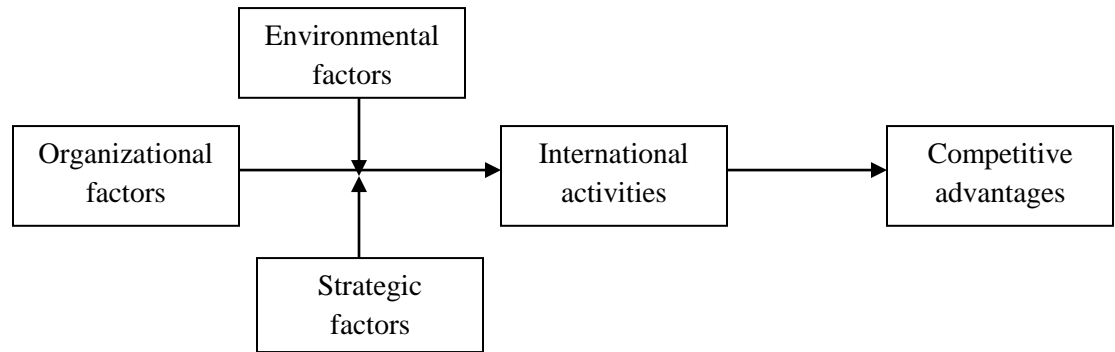


Figure 1.1  
Integrated Model of International Entrepreneurship (Zahra & George, 2002)

Thus a study to empirically test the integrated influence of strategic planning practices, entrepreneurial orientation and environmental uncertainty on the SME internationalization will not only benefit the SMEs' management and owners, but also of interest to policy makers and other stakeholders in Malaysia.

### 1.3 Research Questions

In order to achieve to fill the gap in the literature, the research questions are posed as follows:

1. Does strategic planning practices significantly related to the internationalization of SMEs in Malaysia?
2. Does entrepreneurial orientation significantly related to the internationalization of SMEs in Malaysia?

3. Does environmental uncertainty moderate the relationship between strategic planning practices and internationalization of SMEs in Malaysia?
4. Does environmental uncertainty moderate the relationship between entrepreneurial orientation and internationalization of SMEs in Malaysia?

#### **1.4 Objectives of Study**

The main objective of this research is to empirically test the relationship between strategic planning practices, entrepreneurial orientation to the internationalization of SMEs in Malaysia. In addition, the environmental uncertainty is also to be tested as a moderating variable on the relationships between strategic planning practices, entrepreneurial orientation and SMEs internationalization. Specifically, this study aims to:

1. Examine the relationship between strategic planning practices and SME internationalization;
  - i. Determine the relationship between environmental scanning and SME internationalization,
  - ii. Determine the relationship between planning flexibility and SME internationalization,
  - iii. Determine the relationship between locus of planning and SME internationalization, and
  - iv. Determine the relationship between horizon of planning and SME internationalization.

2. Examine the relationship between entrepreneurial orientation and SME internationalization;
  - i. Determine the relationship between risk taking and SME internationalization.
  - ii. Determine the relationship between innovativeness and SME internationalization, and
  - iii. Determine the relationship between pro-activeness and SME internationalization.
3. Examine the moderating effect of environmental uncertainty on the relationship between strategic planning practices and internationalization of SMEs.
4. Examine the moderating effect of environmental uncertainty on the relationship between entrepreneurial orientation and internationalization of SMEs.

### **1.5 Significance of Study**

From the findings of this study, it is hoped that significant contribution could be provided both in theory and practical areas of international business, entrepreneurship and strategic management which will be useful for academicians, practitioners and policy makers in their quest to improve the

performance and presence of Malaysian SMEs in international markets as well as for the economic generation and employment creation.

From the theoretical perspective, this study will fill the gap in the past research which tried to understand factors that contribute to the internationalization of firms such as SMEs. Particularly, in Malaysia, studies that examined the SMEs from the strategic planning practices and entrepreneurial orientation are still lacking and rare. Results from those researches are found to be mixed and varied from one culture to another. For example entrepreneurial orientation was found to have a positive effect on international performance but a negative effect on performance in certain and different national context, and thus the findings of previous research do not permit to generalization on the impact of entrepreneurial orientation generally.

This bring up to the questions that no conclusive framework was related to the internationalization factors and performance. Therefore, this study would contribute additional knowledge into the existing body of knowledge on the factors influencing internationalization and growth of SMEs. Apart from that, this study would be meaningful from practical perspective as this will help the SME entrepreneurs and policy makers in developing effective entrepreneurial orientation and strategic planning practices which could stimulate the firms toward increasing their internationalization activities and thus achieving competitive advantage.

## 1.6 Definition of Terms

The following definitions of the key terms and concepts are as follows:

### a) Small and Medium Enterprises

Malaysian government has endorsed new definition of Malaysian SME's at the 14<sup>th</sup> MSDC meeting in July 2013. The definition was simplified as follows:

Manufacturing: Sales turnover not exceeding RM50 million OR full-time employees not exceeding 200 workers; and

Services and other sectors: Sales turnover not exceeding RM20 million OR full-time employees not exceeding 75 workers.

Table 1.2  
Definition of Size Operation of SME's in Malaysia:

Category	Micro	Small	Medium
Manufacturing	Sales turnover of less than RM 300,000 OR fulltime employees less than 5	Sales turnover from RM 300,000 to less than RM 15 Million OR fulltime employees from 5 to less than 75	Sales turnover from RM 15 million to not exceeding RM 50 Million OR fulltime employees from 75 to not exceeding 200
Services & other sectors		Sales turnover from RM 300,000 to less than RM 3 Million OR fulltime employees from 5 to less than 30	Sales turnover from RM 3 million to not exceeding RM 20 Million OR fulltime employees from 30 to not exceeding 75

Source: Senik, Z. C., Isa, R. M., Sham, R. M. & Ayob, A. H. (2014).



A business will be deemed as an SME if it meets either one of the two specified qualifying criteria, namely sales turnover or full-time employees, whichever is lower.

**b) Entrepreneurial Orientation**

Entrepreneurial orientation in this study is defined as behaviour or action of top management within the organization and ability of top management to undertake higher risk in business venture, innovative and proactively compete with the competitors in the industry in international market to achieve business growth and competitive advantage (Miller, 1983). It is an organizational process that consists of risk taking, innovativeness and proactiveness (Lumpkin & Dess, 1996).

- i. Risk Taking: Risk taking is defined following Lumpkin and Dess (1996) definition, as the willingness of top management to undertake large and risky commitment business, in which includes taking debt or using resource for potential return and outcome may be highly uncertain (Lumpkin & Dess, 1996).
- ii. Innovativeness: Innovativeness is described as an effort of the organizational activities that focused on the tapping and discovery of the new opportunities and solutions (Dess & Lumpkin, 2005).
- iii. Proactiveness: Proactiveness indicates how the firm reacts to the general or industry environment changes, such as introducing new product or services and it is future oriented perspective.

**c) Strategic Planning Practices**

Strategic management is a process in firm's organization that involves a full set of top management commitment in setting firms' long term vision and it involve a strategic decision and followed with a strategic actions implementation in order to achieve strategic competitiveness and to earn above average return and sustained competitive advantage (Oktafiga, 2015). The management practices that have been commonly and deemed necessary in enhancing the strategic actions in achieving the competitive advantages of firms is, environmental scanning intensity, horizon of planning, locus of planning and flexibility of planning (Barringer & Bluedorn 1999).

- i. Scanning intensity: Scanning intensity refers to the managerial activity of gathering information of market trends especially in the external environments (Hambrick, 1981). It is also defined as management activities in the organization continually perform scanning activities to recognize and exploit environment change. Thus scanning will help managers to cope with uncertainty environment so as to reduce or manage the uncertainty.
- ii. Planning flexibility: Planning flexibility is where strategic plan changes as external environment opportunities or threat emerges, and that it investigates how environmental and firm characteristic affect the design of strategic planning systems. The flexibility of planning coupled with the intensive environmental scanning intensity allows firms to remain informed and permits firm's entrepreneurial activities to be planned rather

than to take place in an ad hoc manner outside the parameter of a strategic plan (Barringer & Bluedorn, 1999).

iii. Planning Horizon: A firm's planning horizon refers to the length of the future time period that decision-makers consider in planning (Das, 1987). For this study the planning horizon refers to the length of planning or strategy and it can be ranging from less than one year to more than fifteen years. Firms that operate in the uncertainty environment or entrepreneurial firms must survive in the short term to get the long term and as such a relatively short average planning horizon (less than 5 years) may be more suitable.

iv. Locus of Planning: The term locus of planning refers to the depth of employee involvement in a firm's strategic planning activities. High involvement in planning brings the people 'closest to the customers' into the planning process and it maximise the diversity of viewpoints that firm consider in formulating its strategic plan. The management allows more level of organization in setting firm's long term plan or strategies (Barringer & Bluedorn, 1999).

**d) Internationalization**

Internationalization is defined as firm's level or extent of international diversification and is often reflected by the number of different markets in which a firm operates and their important to the firm, and most often measured as the percentage of foreign sales to total sales (Hitt, Hoskisson & Kim, 1997).

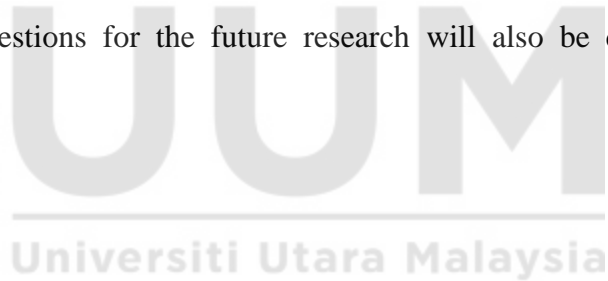
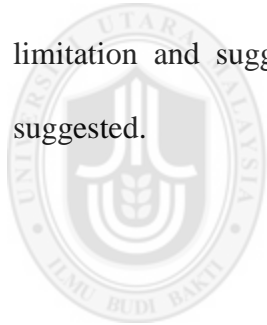
e) **Environmental uncertainty**

Environment uncertainty consists of a factor that affects firm performance regardless of its strategic orientation or its resources. These factors are outside the control of the firm (Lumpkin & Dess, 1996). Yalcinkaya, Calatone and Griffith, (2007) defined uncertainty environment with high level of change that can creates uncertainty and unpredictable to the business environments. It is hostile, complex, dynamic and volatile.

**1.7 Organization of Thesis**

There are five chapters in this study. The first chapter comprises of introduction that consists the background to the topic of the research addressed by this dissertation, problem statements, research questions, objectives of the study, the significance of the study, definition of terms and organization of the thesis. Chapter 2 contains a literature review relevant to international entrepreneurship, internationalization theories, entrepreneurial orientation, strategic planning practices, and the uncertainty environmental. All theories that are relevant to strategic planning practices, entrepreneurial orientation, and contingency view are discussed extensively and followed by reviews of all relevant literature on independent variables, (SPP, EO), moderating variables (environmental uncertainty) and dependent variable (internationalization). In Chapter 3 of this study focuses on the methodological approach of the study. This comprises

research design, population sample, sample size, validity and reliability, pilot tests, data collection procedure, data analysis and summary of the chapter. In Chapter 4 the analyses of the results of study will be presented. It consists of introduction, data collection process and survey responses, responses rate, descriptive analysis of respondent, assessment of PLS-SEM path model result; assessment of measurement model followed by assessment of structural model, results of structural model, moderators, assessments of the variance explained in the in the endogenous latent variable. Finally, Chapter 5 will present the discussion on the findings and conclusion and in accordance to the objectives of the study, research questions of the study and its implication. In this chapter, a limitation and suggestions for the future research will also be discussed and suggested.



## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

The objective of this study is to address the unexplored gap in literature among the disciplines of marketing, international business, strategic management, and entrepreneurship by examining the factors that influence the internationalization of SMEs in Malaysia. This chapter will review the relevant literature pertaining to the independent variables, moderating and dependant variables leading as well as the research framework. Specifically, literature on internationalization, entrepreneurial orientation, strategic planning practices, and external environment will be examined and discussed. The chapter will also focus on the theories that underpinned the study, the research framework, and the formulation of hypotheses for the study.

#### **2.2 International Entrepreneurship**

Smith (1776) first postulated the importance of international entrepreneurship to the economic development of nations in his literature. Exporting goods and services is very important for any countries' economics for generating revenue and financing of imported goods and services which cannot be produced locally (Coutts, Godley, Michie & Rowthorn, 1992). McCombie (1992) also found significant relationship between these

two elements for the nation's economic development. The concept of internationalization has now been evolved from the matured multinational corporations to the small and medium enterprises (SMEs). According to Miesenbock (1988) this phenomena reflects the importance of SMEs in boosting the nation's economic growth as well as providing employments. The definition of international entrepreneurship has also evolved with many researchers looking into different perspectives, such as geographical expansion of economic activities cross border country (Johanson & Mattson, 2015; Madsen & Servais, 1997; Calof & Beamish, 1995; Welch & Luostarinen, 1993), relationship and process (Johanson & Vahlne, 1990), network and relationships (Lehtinen & Penttinen, 1999), and resources and process (Ahokangas, 1998). Meanwhile, Zahra and George (2002) defined international entrepreneurship as a creative process in entrepreneurial firms that discover or identify the opportunities beyond the domestic markets and exploit it to outside markets in order to develop a competitive advantage. Wright and Ricks (1994) concurred that the international entrepreneurship is an activity that the firm focuses in developing and positioning the relationship between its environment that crosses national border in which it operates and these activities would normally lead to an increased performance.

Weisfelder (2001) posited that most of the theories on internationalization were rooted in the industrial organization models as early as 1930s by Coase, followed by Bain (1950) and Williamson (1970) , and eventually developed in the 1980s due to the phenomena of the numerous numbers of American companies which started to invest in the European markets, and at the same time the numerous numbers of European companies which invested or were exporting their products in the neighbouring countries.

The earliest model of internationalization, the Uppsala model was started in 1970s by some researchers in the Nordic countries which are also referred to as Uppsala School. This Uppsala model suggests that the internationalization is an incremental process that evolves over time with two key elements; that is the knowledge acquired through experience and decision making to venture internationally. However, studies conducted by Erramilli (1992) and Trunbull (1987) found that the Uppsala Model did not explain the latest phenomena of internationalization. Similarly, Fillis, Johansson and Wagner, (2003), Gronhaug and Kvitastein, (1993) and Millington and Bayliss (1990) also argued that this theory failed to fully explain the new trend and factors that contribute to those firms that successfully ventured into international involvement. Oviatt and McDoughall (1994) observed that some firms had entered into international markets from the start, and they referred them as international new ventures or born global, and this phenomenon changes the view of the internationalization concept.

There is an evolution of concept of overall research on SMEs which has shifted its focus from the scope and content of international activities to the resources needed for internationalization. According to Ahokangas (1998), the internationalization is an on-going process that firms should take especially in acquiring asset, resources and recruiting human capital and thus developing and mobilizing them to the international activities. Firms' decision to venture into overseas market involve careful study and ability to understand the risk and recognise the multiple risk factors including foreign currencies, condition of infrastructure, policy, market efficiencies, market size and its limitation (Ireland & Webb, 2007). Morris (1998) posited that the international



entrepreneurships require continuously teamwork effort among the human capital with unique skills and resources and particularly in the collectivism culture and that the appropriate incentive for individual or group for innovation should be provided if it is to be implemented successfully. According to Anderson and Kheam (1998) firms that have a particular relevant unique of organizational resources will determine its strategy and ability to internationalize and performance. Some researchers (eg. Bilkey & Tesar, 1977; Cavusgil, 1984; Czinkota, 1982; Reid, 1981) observed that internationalization process is related with the organizational and management innovations which occurs within the firm.

Zahra, Ireland and Hitt (2000) recounted many of the measures of international entrepreneurship activity that have been addressed such as antecedents to international activity, process for moving into international markets, performance effects of new venture international operations, the impact of regulation, industrial and organizational factors that enable or constrain new venture international focus, and many other variables. However, most of these studies were mainly focused on the multinational corporations and very few studies have been focused on the small and medium enterprises in developing countries. There have been some studies in Malaysia; however, the contribution to the theory is still limited. Some of those studies discussed various issues of SME internationalization in Malaysia such as pattern of internationalization (Hashim & Hassan, 2008), impact of networking on SME internationalization (Zain & Ng, 2006), government supports and business strategy for SME internationalization (Hashim & Hassan, 2008), competitive and manufacturing strategies (Singh &

Mahmood, 2014), networking and internationalization of SMEs in emerging economies (Senik et, al. 2010), and proses of internationalization and triggering factors (Senik *et, al.* 2014). However, despite the increase attention paid to this area, the research conducted on SME export performance is still limited (Singh & Mahmood, 2013). Senik *et al.*, (2014) suggested for further studies to examine, refine and deepen the factors that could enhance the internationalization and that the SMEs to consider the grooming and enhance the organizational capabilities, such as human capital development to create better knowledge and understanding on the internationalization.

Researchers have proposed various theories to argue that different factors influencing firm internationalization and competitive advantage, and some researchers claimed that interaction and dynamic adjustments between environment, strategies, structures, and resources can become primary determinants of the firm performance. Porter (1980) has suggested structure-conduct- performance models in which the industry environments influence firm's behaviour (conduct) and thus determines industry and firm performance. Inversion and Andrews (1987), Burgelman (1983), and Ansoff (1965) suggested the strategy- structure- performance models in which organizational structure should follow strategies and thus influence performance, while other researchers such as Mintzberg (1979), and Miles and Snow (1978) pointed to external environmental as adding factors.

### **2.3 Internationalization**

Internationalization is the exposure a firm has to foreign market and is often measured by the number of the different foreign markets entered or operated (Hitt et al, 1997). However, most of the measures used is the percentage of foreign sales to total sales (FSTS) or the financial performance of the firms (Mohamad & Ching, 2009). According to Radulovich (2008, p.63) “a firm internationalization has been conceptualized in prior research using various terminologies, such as export intensity, international business intensity, internationalization, scale and scope of internationalization (Pla-Barber & Escribe-Esteve, 2006; George, Wiklund & Zahra, 2005; Saarenketo, Puumalainen, Kuivalainen, Kylaheiko, 2004; Lu & Beamish, 2001, 2004; Zahra & Garvis, 2000; Zahra, Ireland, & Hitt, 2000; Cavusgil & Zou, 1994; Sullivan, 1994). Export intensity represents the proportion of production output to export and is commonly measured as the ration of export to total sales (Francis & Collin, Dodd, 2004; Verwaal & Donkers, 2002). A high level of export intensity is indicative of a greater internationalization and has been used as a measure of the effectiveness of firms’ internationalised activities (Verwaal & Donkers, 2002).

Caloff and Beamish (1995) defined internationalization as the taking process related to exchange transaction and adapting them to international markets. Johanson and Mattson (1993) defined internationalization as a process of adapting firms’ operations (strategy, structure, resources etc.) to international involvements and the definition of

internationalization to include import of raw materials, the establishment of subsidiaries, joint venture or subcontractors and sales of products and services as export or imports.

## **2.4 Entrepreneurial Orientation**

Gupta, Mac Millan and Surie (2004) pointed out the importance of entrepreneurship as an engine of nation's economic growth and that it has been acknowledged for many years as posited in the works by Schumpeter in 1934. Entrepreneurship was originally referred to a person or a function of organization (Schumpeter, 1934), which involved a creativity process with trial and errors and continuously replace and destroy existing products or process with new ones. However, Schumpeter writings were mainly focused on the activities of the individual entrepreneur, while other authors arguably centred at the firm level activities (Covin & Slevin, 1991; Guth & Ginsberg, 1990; Miller, 1983). Subsequently more authors accepted this view of entrepreneurship which were mainly based on the innovation either on the deployment of resources and the creation of new capabilities or market positioning (Stopford & Baden-Fuller, 1994). Lumpkin and Dess (1996) suggested it as a process of creating interest of potential buyers, and that it is firm's level entry activity to new market or established market which includes launching of new goods or services.

Knowledge based resources has been regarded as an important culture that should be inherited by organization and continuously looking to pursue and in enhancing the competitive advantage (Wiklund, 2003). Wiklund (2006) also recommended for the firms

to be more entrepreneurial by instilling the entrepreneurial behaviour which known as entrepreneurial orientation and that to be implemented throughout the organizations. Entrepreneurial orientation (EO) is a propensity of firm's willingness to take risk and be responsive and to be innovative to achieve desired results. From the strategic management perspective, entrepreneurial orientation can be distinguished from entrepreneurship. Entrepreneurship is viewed as going into a new venture or creating new business opportunities, whereas entrepreneurial orientation is focused on the strategic behaviour of firm's mind-set which includes using the right methods, actions and decision making activities that act entrepreneurially. Lumpkin and Dess (1996) defined entrepreneurial orientation as an on-going process that involves making strategic decision, practices and process which eventually leads to renewal or new entry. Covin and Slevin (1988, 1989, 1991)'s definition of entrepreneurial orientation of an organization is the willingness undertake risk, to innovate, and proactively response to the external environment, and thus taking advantage toward new market place by introducing new products or services.

Miller (1983) and Miller and Friesen (1982) were among the earlier researchers who brought up about the idea of entrepreneurial orientation, the concept mentioned earlier in articles by Mintzberg (1973) and Khandwalla (1987). Subsequently many studies have been conducted about the entrepreneurial orientation and among them are Zahra and George, (2002), Zahra and Garvis, (2000), Lumpkin and Dess, (1996, 2001), Zahra and Covin (1995), and Zahra (1991, 1993). Miller (1983) introduced the multidimensional concepts consisting of innovative, proactive and risk taking. According to Lumpkin and

Dess, (1996) the scale for entrepreneurial orientation was originated in the strategic management literature and it is closely related to the strategic management study and strategic management decision making process on the various literature review surrounding the entrepreneurship. Nevertheless the scales developed by Miller and Friesen (1982) were commonly used by many researchers to measure the level of entrepreneurial orientation (Zahra, Jennings, & Kuratko, 1999). Many researchers such as Covin and Slevin (1989), Brown, Davidsson, and Wiklund, (2001) and Covin, Green and Slevin, (2006) have further refined these scales and measures.

Miller and Friesen (1982, 1983) observed that the vital part of the entrepreneurial firms that they focused is on the innovation to gain competitive advantage and coupled with the ability to take higher risk, especially when introducing new product lines and services. An entrepreneurial firm getting involved seriously in product innovation, is always proactive to the market demand, and always trying to be the first to come up with new product and services, and leading the way to beat the competitors in order to stay ahead. This sometimes involved taking higher risk in order to gain profit for business performance. Miller (1983) also saw a non-entrepreneurial firm taking less risk with little innovativeness and usually imitates the market leader moves. Thus Miller and Friesen, (1982) argued that innovation strategy plays an important role for entrepreneurial firms and it is either forced through management and the structure of the firm or a natural state of the firms. Moving from the Schumpeter concept of entrepreneurial research which mainly focused on individual activities of entrepreneurs, Miller (1983) shifted this view to organizational level in which the activities such as innovation, risk-taking, and pursuit

of new opportunities are being regarded as the organisational activities. After extending entrepreneurship from an individual behaviour to a firm level behaviour (Miller, 1983), the domain evolved further to accept a conceptualization that encompassed entrepreneurial resource combinations in all sizes of firms, not only in small ventures (Miller, 1983). At this point, an entrepreneurial orientation had become a topic of interest by researchers in several disciplines. Risk-taking, aggressive, and innovative behaviour was noted in organization studies (Covin & Slevin, 1991), strategic management literature (Khandwalla, 1987), and management science periodicals (Covin & Slevin, 1989; Miller & Friesen, 1982, 1984).

The items for measuring of entrepreneurial orientation have been refined. Risk taking items introduced by Khandwalla (1977) has been incorporated and two product innovation items from Miller and Friesen (1982) were also included as well as items for pro activeness from Miller's scales (Miller, 1983; Miller & Friesen, 1978, 1982). However, the most often conceptualization used in the entrepreneurial orientation research was the measures introduced and developed by Miller (1983) and Covin and Slevin (1988, 1989). Zahra (1993b), posited that the entrepreneurial firm engages in innovation of product, taking risk and always proactive and response to be the first in the market.

### **2.4.1 Risk Taking**

Risk-taking is defined as the degree to which managers are willing to make large and risky resource commitment that is those which have a reasonable chance of costly failures (Miller & Frisen, 1978). This implies the desire of firms to invest more in resources on project with possibilities of failure. Lumpkin and Dess (1996) and Zahra and Covin (1995) defined risk taking as an involvement of the uncertainty in business returns, and the ability and willingness of firms to venture into a business commitment in uncertain business environment with proper strategies. Risk taking is about tried and true path in which a firm has to adopt that results in certain expected return in term of financial returns (Venkatraman, 1989). Lumpkin and Dess (1996) referred risk-taking behaviour of entrepreneurial firms to undertake and involve taking on debt and utilizing it for investment which potentially giving high returns or even financial loss. Miller (1983) clarified that risk-taking is not only a firm that is highly leveraged financially, but also engaged in product-market or technological innovation.

### **2.4.2 Innovativeness**

Lumpkin and Dess (1996) defined innovativeness as a firm's culture that is ready to accept or tendency to accept new ideas and ready to accept new experiences which are novelty. This engagement of ideas and experience and through the creative process will then create a positive result in producing new products and services. Innovativeness means creativity of firms pursuing challenges by introducing new products or idea.



Unlike large corporation, SMEs usually face more challenges due to deficiency of resources especially in the uncertainty business environment. Innovative can be traced to the role of creativity and innovation in market dynamics described by Schumpeter (1934, 1942). Innovative ability reflects progress of producing new ideas and products and it is very important for entrepreneurial orientation, and it has an impact to the success of firm's internationalization. Schumpeter's concept of creative destruction involves the process of a firm's actions and reactions in the pursuit of opportunities in free markets where existing market structures are disrupted and resources are reallocated toward new firms which then Schumpeter further argued that creative destruction including introducing new product and services and relocation of asset from old firm to the new firms.

Schumpeter (1942) explained that creative destruction is a process that revolutionizes the economic structure by incessantly or continuously destroying the old one, incessantly or continuously looking for creating a new one. As such, innovativeness creates new product development for economic expansion and becomes a source for corporate growth and profit. Schumpeter (1934, 1942) also suggested that innovation as part of the entrepreneurial process through forecasting the market demand and reacting accordingly together with continuous innovative will accelerate economic rewards for innovative firms and this reaction would widen the gap between innovative firms and their competitors.

### **2.4.3 Pro-Activeness**

Pro-activeness indicates how the firm reacts to the environment (Miller & Frisen, 1978). Does a firm merely reacts to it when it is required or it has come up and taking control and reshape the environment by introducing new products, technologies, administrative techniques? It is the ability of the firms to foresee the future trend and grasp the opportunities to be a first mover advantage. The strategies of fast reaction would lead to business performance, and this could be gained through the process of leveraging experience and learning curve. Pro-activeness is a future oriented perspective and Venkatraman (1989) defined it as similar to the proactive strategic firm orientation described by Miles, Snow, Meyer, and Coleman (1978). Miles et al. (1978) described a prospector firm as always proactive and innovative and looking for new opportunities either new product or services and potential new market and maintaining a reputation as an innovator. Venkatraman (1989) also conceptualized entrepreneurial pro-activeness as a proactive behaviour to continuously searching for the market opportunities and continuous search for improvements.

### **2.5 Strategic Planning Practices**

According to Andersen (2004), strategic planning practices is a process undertaken by the management in order to gain its long term objectives, that is to achieve superior performance or competitive advantages and earns higher return of investment or above

average return. It is a strategic process in which a firm has to integrate and coordinate all of its strategic activities and exploit the core competencies to achieve its long term superior performance or sustainable competitive advantage and earned above average returns (Whelen & Hunger, 2002). It is a firm level activity that starts with an understanding of the general environment, industry environment and competitor analyses and then decides the firm's mission and goals (Andersen, 2004). According to Whelen and Hunger (2003) it is a process to identify and deeply understand, and analyse and prepare for strategic alternatives, and all of these activities and implementation are coordinated carefully across the entire organization. According to Barring and Bluedorn (1999), there are four dimensions of strategic management practices that are considered very important particularly in a situation when firms are facing external environments that are highly turbulent, complex, and global. These are scanning intensity of environment, flexibility of planning, Horizon of planning, and locus of planning and frequency of scanning

### **2.5.1 Scanning Intensity**

Scanning is a process of identifying an early signal of environmental changes and trends in the external organizations and the activities involve some important factors in the society which influence the industry ecosystem and firm's behaviour in the ecosystem (Hay & Williamson, 1997). According to Hay and Williamson (1997) the activities of external environment scanning should include the demographic of the society, the economic factors (interest rate, GDP, etc), political factors (regulation, policies and new

laws), technology factors (new product, process and materials), and globalization and competitor strategies. The integrated information gathered from the scanning of external and internal environment will then be used by the firm to form a vision and mission which is part of the process in strategic management (Spulber, 2004). The intensity of scanning activities is more focused on identifying the firm opportunities in creating value and to achieve the firm's competitive advantage, and the ability to recognize firm's opportunities, predicting the dynamics of competitor's action, responses and strategic action. Morris (1998) posited that today's globalization has created opportunities for those involved in innovation and scanning the general environment, in particular when the dynamic of business ecosystem life cycle and rapid product changing such as the changing of demography, an increase in competition, changes in regulation locally and internationally. Looking at this situation, the importance on scanning intensity appears to becoming significant dimension in both strategic management and entrepreneurial studies (Covin & Slevin, 1991) and it creates both business opportunities and growth. Morgan and Strong (2003), and Zahra (1993b) postulated that the scanning intensity is at utmost importance when it is in the industry that is fast changing cycle such as health care related, biotechnology and information technology related.

The role of environmental scanning in a firm is to develop the strategic competitiveness in which the firm gathers information and reduces risk taking factor especially in the uncertainty environment (Frishammar & Horte, 2005), and selects and implements the right value creation strategies to further the goal of competitive advantage (Strandholm, Kumar & Subramaniam, 2004). Changing and adapting to the external changes could

improve a firm's likelihood to earn above average returns (Kroeger, 2007). Thus an environmental scanning intensity is no doubt critically important for the firms which are operating in dynamic business ecosystem, in incomplete data, volatile and ambiguous environments (Eisenhardt, 2002). Nevertheless the scanning activities have to be in tandem with the long term objectives of the firm and scanning designed for the volatile industry may not be suitable for the stable environment (Zhang, Majid & Foo, 2011; Jiao, Alon, Cui, 2011).

Many studies have shown that firms which practise scanning intensity are able to develop strategic competency and tend to survive in unstable business environment compared those firms that are not (Michalova, Snejina & WuZhan, 2015; Freel, 2005). Environmental scanning intensity is an on-going managerial activity that is to identify early signal of external and internal environmental changes and trends, and thus to understand and take an appropriate action that facilitates opportunity recognition and to identify threats that could help minimize uncertainty in decision makings (Hambrick, 1981). According to Freel, (2005) and Suh, Key and Munchus (2004) the scanning frequency of environment on the changes or trend of demographic, political, economic technology and competitors is an important task for the managers as these external factors are dynamic and the rate of changes continue to increase and it is complex and even highly risky. As such the frequency of scanning activities by the managers can certainly identify any signal of changes in the general environment and thus provide information and analyse the information for the strategic response and action (Patton & McKenna, 2005). Wolff and Pett (2000), and Roberts, Liu and Hazard (2005) posited that

scanning frequency of environmental is used to generate alternative strategic change and it will increase the effectiveness of the strategic management practices in setting up their vision, mission and strategic actions. The scanning activity provides the firms with information in the industry and competitor strategies, and it may create an opportunity or threat to the firms and to response to it strategically (Muralidharan, 2003).

Therefore, the more frequency scanning activities are performed the better the information and analysis can be done. Calantone, Garcia and Dröge, (2003) suggested for the firms in turbulence environment to adopt less centralized and more organic structure to minimise the red tape and faster the decision making. Moreover, according to Siguaw, Simpson and Enz (2006) the dedication towards environmental scanning could gain better knowledge and may lower the firms' risks in their venture activities. The continuous scanning activities will eventually improve the firm's level of competitiveness in which these firms will be more flexible and learn from the experiential knowledge (Kumar, Subramanian, & Strandholm, 2001). Continuous dedication of the firms will eventually improve them in utilizing the resources and skills, and in the long run these firms will gain benefit such as customer loyalty and satisfaction (Cousins, Lawson, Petersen & Handfield, 2011; Barney & Arikan, 2001)

### **2.5.2 Planning Flexibility**

The highly dynamic of today's business environment and an increase in competition as well as shortening of product life cycle and changing of lifestyle of consumers requires

firms to come out with proper strategic action and responses (Grant, 2003). This situation results in the uncertainty of profit in business and it forces many firms to continuously seek for new opportunities and at the same time to identify possible threats that may cause these firms to progress well to achieve the desired result and competitive advantages (Wiklund & Shepherd, 2005). Planning flexibility is therefore concerned with the ability of the firms to change and respond quickly to the threat and opportunities recognised in the external environment (Sanchez, 1995).

In dealing with this rapidly changing external environment, firms must adopt the strategy that has some flexibility in it and fit to the fast changing of external environment to support their operations and performances by developing value added activities and to sustain the competitive advantage (Glarino, 2013). The importance of strategic flexibility has been further asserted by Aaker and Mascarenhas (1984), where it is an important and valuable asset for firms to succeed in highly competitive environments. Sanchez (1995) stated that the strategic flexibility would provide firms a flexibility to gain extra benefit from the existing and new business portfolio development and competition. However, the usefulness of strategic flexibility is depending on the strategic action of the management on understanding the resources and capability and to deal with actual situation and come out with alternative action in responses to its (Sanchez, 1995).

Several researchers have suggested that management should practice flexibility to face the new business landscape, that requires continuous rethinking on improving the existing strategic plan and action, and this requires the relook at the organization structure, the

communication channel and level system, investment and development strategies of firms (Glarino, 2013; Clarkin & Rosa, 2005). Planning flexibility dimension was first introduced by Kukalis (1989) who investigated the effect of strategic planning practices in dynamic environment and the effect of firm characteristic. Kukalis (1989) suggested the firm to practice strategic flexibility in planning system so as to position the firm's strategic orientation and implementation quickly. Covin and Slevin (1989) further asserted that a firm's flexibility and ability to change strategic behaviour for long term goal and concern for adopting flexibility will promote performance. Firms that are engaged in strategic behaviour have been observed to gain the competitive advantage, especially when it involves innovation and risk taking (Miller & Frisen, 1982, 1983). Covin and Slevin (1991) also pointed out that entrepreneurial firms are those ready to venture into the risky situation and always try to introduce new products, services, and are proactive to the competitors' strategies. According to Freel (2005) and Young, Charns, and Shortell, (2001) the firm must also be capable of identifying potential opportunities and of undertaking and explore the opportunities strategically. Entrepreneurial firms have been recognised and empirically tested for adopting flexibility in their planning processes (Schoonhoven & Jelinek, 1990; Hambrick & Crozier, 1985).

Therefore, it is important for firms to be flexible in adopting high flexibility planning process and have strong commitment and capability to manage change in organization that compete in the high degree of uncertainty environment. A high degree of planning flexibility would give organizational chance to position and reposition of organization



quickly to the threat and opportunities that emerged, and eventually achieve their long term vision and mission.

### **2.5.3 Locus of Planning**

Barringer and Bluedorn (1999) defined the level of involvement of employees with the top management in planning activities of firms and deep locus of planning is an indication that all levels of employees are involved in the planning process, and this concept is very similar to the team building concept and the participative management styles. They argued that planning activities in the bureaucratic organization would only be limited to senior management and with little or no input from the lower levels of the organization. Willingness of top management to facilitate the entrepreneurial behaviour within the organization can be seen through the level of involvement of employees in strategic planning practices in the organization and this commitment includes the commitment by top management to give a freedom for try and error and prepare to accept failure (Ireland, Kuratko & Morris, 2006).

According to Donald and Goldsby (2004) the locus of planning includes the delegation of power and authority as well as responsibility from the top management to the middle and lower levels management. Chakravarthy (1997) pointed out that reconceptualising strategy broadens sharing responsibility within the organization's department, and focusing on optimization in utilizing organizational resources capabilities will be the main source to achieve competitive advantage for the firm. Meanwhile Horsby, Kuratko

and Zahra (2002) argued that encouraging active participation will instil the entrepreneurial behaviour, and as such it is important for the top management not to simply punish subordinates for failures and continue to encourage risk taking and always giving them guidance, or even delegate some of the task and responsibility to the lower management. Thus the entrepreneurial behaviour of top management will lead to creative organization and instil the entrepreneurial culture within the firm for performance improvement.

Floyd and Wooldridge, (1997) argued that the trust given by the top management to their lower level employees is an important element to foster the entrepreneurial process in any organisation, as they are ready to undertake risk more confidently without undue fear of losing their jobs. However, in a conservative organization, where the management is fear of taking risk, normally has shallow locus of planning (Uittenbogaard, Broens & Groen, 2005), and low tendency looking for opportunities as they are not ready to undertake risk (Vithessonthi & Thourungroje, 2011). The performance of a firm has been identified as a result of opportunity recognition (Greve, 1998), and that the firms that encourage middle managers to focus in innovation create human capital that foster trust (Zahra, Nielson & Bogner, 1999), while the middle management who had little time for innovation activities would lead to shallow locus of planning and potentially negative impact on firm performance in the long term (Hornsby, *et al.*, 2002).

#### **2.5.4 Planning Horizon**

The planning time frame for each firm varies from less than a year to up to fifteen years. According to Das (1987) and Camillus (1982) planning horizon is referred to the length of time frame that firm's management consider in making decision and this also to respond to the needed time frame required to execute the firm's routine strategies. Long range planning is differentiated from unstructured short term planning in several ways. Unstructured short term planning is performed on a day to day basis without any measurable processes (Rhyne, 1986). This is also similar to intuitive or ad hoc planning performed by an executive without documentation. Many researchers have found a linkage and causal relationship between planning horizon and firm's improved financial performance. However, there are many practitioners who contended that excessive planning could impede flexibility of firms towards the changes created by external environments (Mintzberg, 1980). Many other authors such as Williams, (2008), Walsh, (2005), and Van Kirk and Noonan, (1982) have asserted that firms conducted reasonable long range planning and effectively adapted to challenges that confront the business are likely to experience long term success. Therefore, there are linkages between planning horizon and firm's improved performance and the firms that conduct long range planning, for the most part would outperform the non-planners.

## 2.6 Environmental Uncertainty

The impact of the external environment on business performance has been evaluated from many viewpoints and many researchers have generally agreed that environment impacts the firm performance locally and internationally (Ferreira, 2001). There are many terminologies associated with the environment; complexity (Aldrich & Wiedenmayer, 1993), Munificence (Dess & Beard, 1984; Rasheed & Prescott, 1992), turbulence (Khandwalla, 1977; Naman & Slevin, 1993), volatility (Rantakari, 2013), and hostility, heterogeneity, and dynamism (Miller, 1983; Yeoh, 1994).

The external environment has a varying degree of turbulence and this creates uncertainty to the industry that change the structure of the ecosystem. External environment is a key factor impacting the way in which strategies are developed (Ernest Chang & Ho, 2006) while Lumpkin and Dess (1996) pointed out that external environment has an impact to the firm's performance regardless of firm's size and strategic posture. The impact of external environment to the strategic orientation and the export performance has been identified by Yeoh and Jeong (1995), and it is important for the firms to apply different strategies for the different environments in which are competing (Akhter & Robles, 2006). Zahra (1991) also suggested using different strategies for firms in responding to dynamic external environment, while a strong relationship between entrepreneurial strategy and environment fit and the ability of firm to position to desired condition is vital for the business success (Weaver, Dickson, Gibson & Turner, 2002).

Entrepreneurial orientated is a key characteristic that has been attributed to the type of management style necessary to be successful when dealing with uncertainty (Palich & Bagby, 1995; Covin & Slevin, 1989), and the process that firms are going through in adapting the external environment to ensure the long term vision and objective are met is strategic management process (Chakravarthy, 1986; Miles & Snow, 1978). Greenly and Oktemgil (1997) argued that the choices available to management are moderated by which the business is operating. Therefore, firm that operates in a turbulent environment has to be innovative in order to survive. It has also being found out that in the business environment that has a higher level of complexity and dynamic will encourage more innovation activities, and the firms are more ready to undertake risky activities and are more proactive in adopting entrepreneurial strategic behaviour (Yeoh & Jeong, 1995; Miller, 1983).

Generally, when firms are operating in a high degree of turbulent environment there is a high risk of uncertainty which requires high level of proactive and strategic planning process. Therefore for the firms to succeed and sustain competitive advantage, it would be very much dependent on their ability to find the right resources and capabilities, and the complexity of external environment would always increase the need for strategic entrepreneurial behaviour and planning practices.

## **2.7 Underpinning Theories**

The underlying theories that serve as foundation and support or form the basis of this study are Resource Based Theory and Contingency Theory.

### **2.7.1 Resource Based Theory**

Resources Base Theory (RBT) implies that organizational internal resources capabilities are the basis for the firms to earn above average return and determine its competitive advantage (Barney, 1997). According to this theory, differences in firm performance across time are due primarily to their unique resources and capabilities rather than to the industry ecosystem. RBT focuses on developing firm internal resources, in which firms acquire differences resources and develop unique capabilities, and that difference in resources and capabilities are the basis for firms to earned competitive advantage (Bansal, 2005; Barney, 1991; Penrose, 1959).

Firm resources which are valuable, rare, costly to imitate and not easily to substitute will become firm core competencies and source of competitive advantage (Hitt, Ireland & Hoskisson, 2012). Hoskisson, Hitt, Wan and Yiu (1999) argued that a firm's strategic leaders (CEO, top management teams or board of directors) are unique resources and they have an impact on organizational performance. RBT implies that firm's internal resources and capabilities are integrated together with effective strategies so that a firm can achieve competitive advantage and superior performance. According to Grant (1991)

resources are those tangible and intangible assets possessed by firms, and capabilities that are the ability of firms in accomplishing different activities and depending on the available resources. The competencies of firms are resulted from the integration of firm specific assets into clusters spanning individuals and groups so that they have distinctive abilities (Zhou & Li, 2010; Teece, Pisano & Shuen, 1997). O'Regan and Ghobadian, (2004), and Chandler and Hanks, (1994) pointed out that organizational performance is a consequence of a firm's specific resources and capabilities enabled by management competencies, as internal resources availability places a fundamental limit on an organization's plan, regardless of those obtainable on the open market. The underlying principle of resources based view lies in the emphasis on resources and capabilities as the source of competitive advantages. Zhou and Li, (2010), Barney (1991, 2001), Wernerfelt (1984), and Penrose (1959) suggested that the allocation of appropriate organizational resources is a key determinant of a firm's strategy, performance and maintenance of competitive advantage in the market. As Oliver (1997) asserted "a firm's sustainable advantage depends on its ability to manage the institutional context of its resource decisions which includes internal culture and broader influences from state, society and inter firm relations"(as cited in Brahma & Chakraborty, 2011, p. 13).

### **2.7.2 Contingency Theory**

Contingency theory examined the relationship between external environment, organizational factors and strategic factors (Zahra & George, 2002). Kim, Prescott and Kim (2005) observed the relationship between external environment, foreign ownership

and control strategies. The main objective of contingency theory is to determine as to how the external environment moderates the firms resources and capability and competitive advantages. Any changes in external environment will require a firm to change its strategy by finding a match between its resources and strategic fit (Zajac, Kraatz & Bresser, 2000). Contingency theory is often being used to examine the relationship between the organization capabilities and competitive advantage (Zahra & George, 2002). Cadogan, Kuivalainen and Sundqvist (2009) used the contingency theory to observe the relationship between export market orientation and export performance. A continuous effort towards environmental scanning will continue in the repositioning of the small strategic action in response to the competitor's actions (Slevin & Covin, 1995) and once the strategic choice has been decided, the top management or leader of the organization must coordinate the effort to integrate and create synergy.

The role of external environment in setting the firm's development and strategic orientation remains crucial for the firm to manage and integrate it with the internal capability. Contingency theory is of the view that there is no one perfect structure that is suitable for all situations, and the basic principal on contingency theory is that the efficiency and effectiveness of the firms can be achieved in different ways it has to fit between organization and context, structure and process in which determines the performance (Coviello, 2006).



## 2.8 Theoretical Framework

This study adapted the Integrated Model of International Entrepreneurship designed by Zahra and George (2002). Figure 2.1 shows the conceptual model which links antecedents, types, and outcomes of internationalization. There are three main factors that have been identified to have link to competitive advantage of firm internationalization; organizational, strategic and environmental factors.

For this study there are two areas of organizational factors; they are; (1) strategic planning practices and (2) entrepreneurial orientation have been chosen for the study, and international activities that has been substituted with internationalization, as international activities (export, imports, foreign direct investment, strategic alliances, outsourcing, and licensing) have always been regarded as a performance indicator and have been previously used in numerous studies.

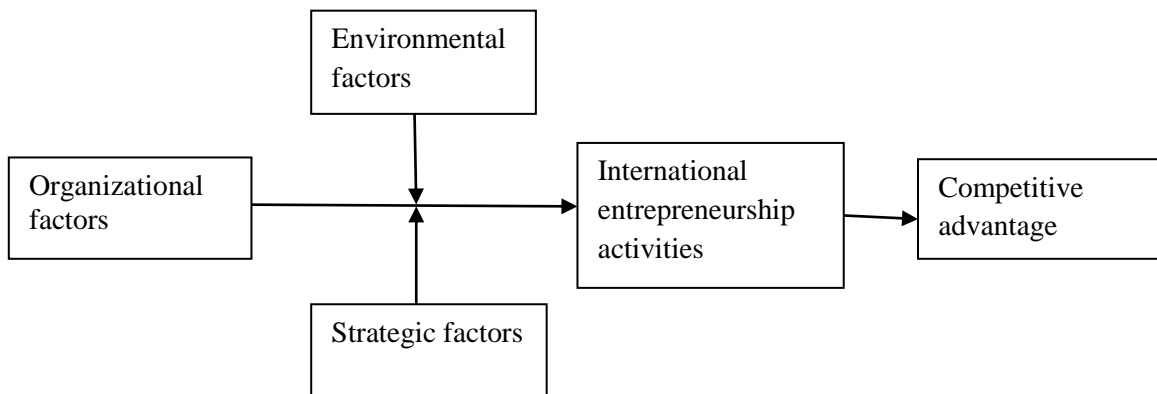


Figure 2.1  
Integrated Model of International Entrepreneurship (Zahra & George, 2002)

For this proposed framework, the dependent variable is internationalization, while the two independent variables are strategic planning practices (scanning intensity, planning flexibility, locus of planning, planning horizon) and entrepreneurial orientation (risk taking, proactive, innovative). Environmental uncertainty moderates the relationship between strategic planning practices, entrepreneurial orientation and internationalization of Malaysian SMEs. This framework is underpinned by two theories; namely Resource based theory (RBT) and Contingency theory (See Figure 2.2).

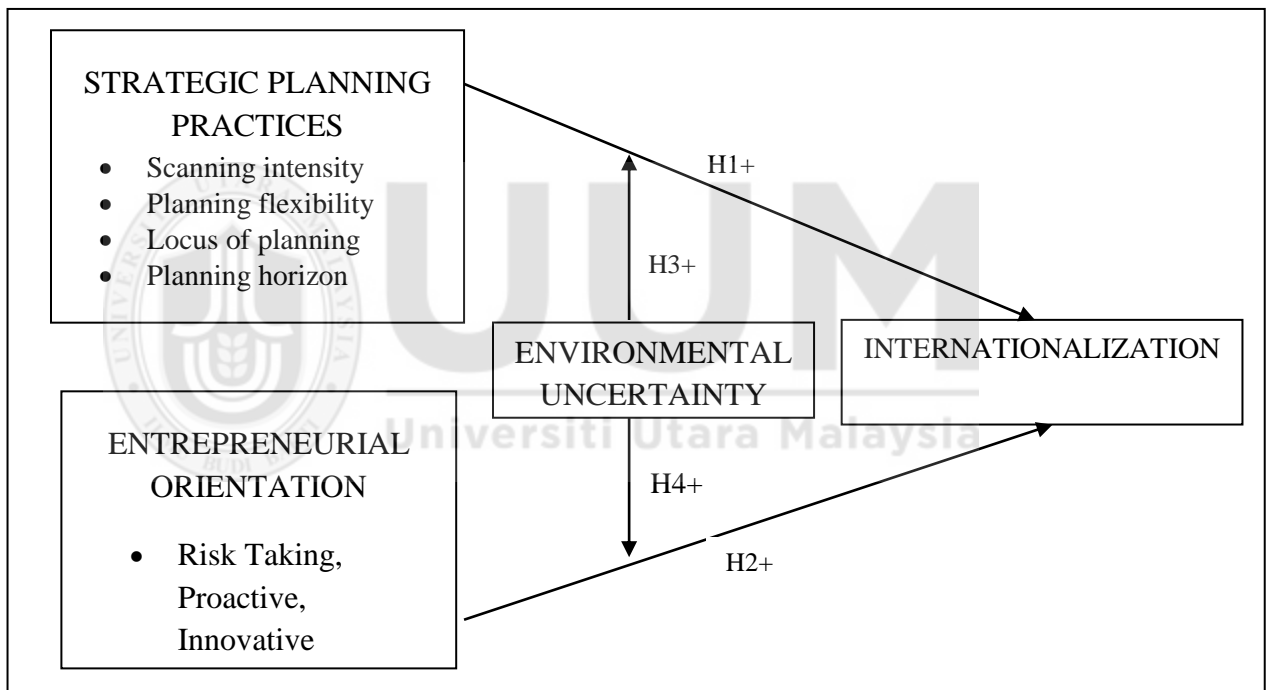


Figure 2.2  
Theoretical Framework

The framework postulates that strategic planning practices of SMEs will directly contribute to the success of internationalization. This is in line with previous researchers that have developed several perspectives pertaining to entrepreneurial firms that strategy

is about positioning and changing the firms' perspectives (Mintzberg, 1987). The continuous organizational strategic process of increasing firm involvement in the international activities (Welch & Luostarinen, 1988), is about changed position and changed perspective, and it is all related to the overall development of scope, idea, actions, value, and lead to new creation of business (McGrath, MacMillan & Venkataraman, 1995; Burgelman, 1983), and also in renewal of existing organizations (Beer & Spector, 1990; Tsai, MacMillan & Low, 1991). Firms normally change the rule of competition for the industry (Schumpeter, 1934) and this process will eventually lead to long term survival and growth as well as internationalization (Lumpkin & Dess, 1996; Zahra, 1993; Covin & Slevin, 1989; Drucker, 1985; Miller, 1983).

The framework also proposes that the internationalization of firms is influenced by entrepreneurial orientation and that firms with strategic entrepreneurial posture regardless of their sizes will prosper in the dynamic business environment either locally or internationally (Dess & Lumpkin, 2005; Hitt, 2005). Ahuja and Morris Lampert (2001) and Zahra (1993) and Covin and Slevin (1989) suggested for the firms to adopt the entrepreneurship behaviour when formulating and implementing their strategic plan and actions, as this factor is becoming very important for the survival of firms competing in turbulent and dynamic business ecosystem. Strategic entrepreneurial behaviours are depending on the effective integration of strategic planning practices with the entrepreneurial vision and goal (Murray, 1984).

The model proposes two different types of relationships. First is the relationship between the strategic planning practices, entrepreneurial orientation and the internationalization, and secondly, it will empirically test relationship of strategic planning practices dimensions (i.e, planning flexibility, scanning intensity, planning horizon, locus of planning) and entrepreneurial orientation dimensions (risk taking, innovative, proactive) to the internationalization.

## **2.9 Hypotheses Development**

### **2.9.1 Strategic Planning Practices and SME Internationalization.**

Strategic planning practices have been linked to firm performance, and are being widely used to explore both theoretically and empirically in recent years (Falshaw & Glaister, 2006). O'Regan and Ghobadian (2004) suggested that strategic planning can be viewed from two perspectives either content or process. Content refers to the distinct value of the strategic planning and process relates to mechanism deployed for the improvement and further development of the strategic plan. Strategic planning has also been linked to performance and internationalization of small and medium firms in implementing change, and decision success (Tapinos, Dyson & Meadows, 2005). Current dynamic of business external environment specifically the globalization, technology change, deregulation of policy and free trade agreement is forcing firms regardless of their sizes to adopt and apply strategic planning tools practices and techniques (Al Ghamdi, 2005). According to Greenley (1994), strategic planning could improve both performance and

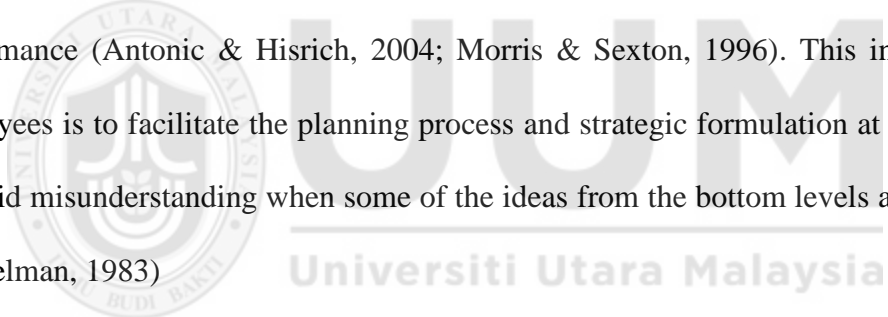
effectiveness of managements of firms and it gives confident to all managers to perform their duties as real value of firms (Ramanujam & Venkatraman, 1987; Veliyath & Shortell, 1993).

Researchers have found mixed result between strategic planning practices and performance in small and medium enterprises (Yusuf & Saffu, 2005), and many other reports have shown no tangible results (Kudla, 1980; Grinyer & Norburn, 1975). However, in a study conducted on small and medium firms, Gibson and Cassar (2005) found positive correlation between strategic planning practices constructs and internationalization using a sample of 2,956 businesses. Andersen (2004) who observed SMEs across the country found that adopting strategic planning practices gives positive correlation with performance for local and international businesses.

Environment scanning intensity is imperative in strategic planning practices as it involves in determining the vision and mission and long term objective of firms especially in the uncertain external environment which can create problems and opportunities (Majid & Kowtha, 2008; Temtime, 2004). It is therefore, environmental scanning is an important element for manager to seriously taken into consideration to ensure that organizations are in the effective position in the fast changing environment (Barton, 2010). According to Kumar, *et al.*, (2001)) information gathered from outside and inside the firm can develop strategic actions and thus to achieve a competitive advantage and create performance (Choo, 2001). Besides having a good environmental scanning the firm planning should also be flexible, so that it can compete effectively in the dynamic business environment

in which continuously changing (Kukalis, 1989). Need (2006) asserted that organizations that more flexible in planning will have better performance in the dynamic business environment.

Level involvement of employees with the top management in planning activities of firms and deep locus of planning indicate that all level of employees are involved in the planning process (Antonic & Hisrich, 2004). Level of involvement in the planning process is also important factor for the firms to determine their future objectives. A wide involvement of employees could provide management with essentials and deeper information facing the dynamic of business environment and enhancing to firm performance (Antonic & Hisrich, 2004; Morris & Sexton, 1996). This involvement of employees is to facilitate the planning process and strategic formulation at all levels, and to avoid misunderstanding when some of the ideas from the bottom levels are overlooked (Burgelman, 1983)



The planning time frame for each firm varies and it can be from less than a year to up to fifteen years. According to Das (1987) planning horizon is referred to the length of time frame that management considers in making decision and this also to respond to the needed time frame required to execute the firm's routine strategies (Camillus, 1982). Williams (2008) postulated that strategic planning practices are one of the key management tools lacking in the small business that contribute to their failure. Wheelen and Hunger (2002) reported that only 20 percent of small business owners practice

strategic planning, despite the evidence that strategic planning is linked to the internationalization.

Therefore, based on the above, discussion the following hypotheses are postulated;

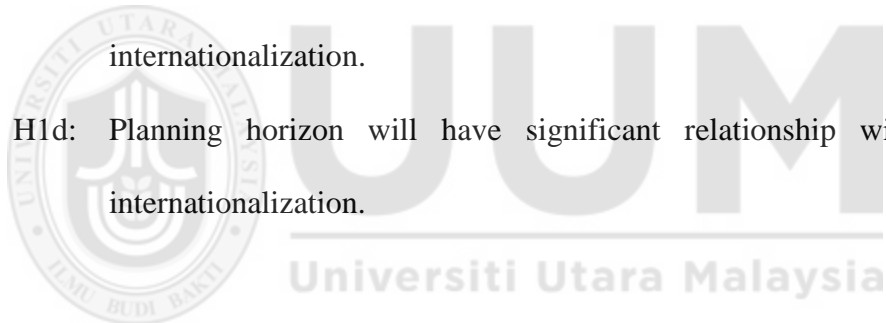
H1: Strategic planning practices will have significant relationship with the SME internationalization.

H1a: Scanning intensity will have significant relationship with the SME internationalization.

H1b: Planning Flexibility will have significant relationship with the SME internationalization.

H1c: Locus of planning will have significant relationship with the SME internationalization.

H1d: Planning horizon will have significant relationship with the SME internationalization.



## **2.9.2 Entrepreneurial Orientation and SME Internationalization.**

Many researchers have found the positive direct effect on entrepreneurship and venturing to international markets (Yiu, Lau, & Bruton, 2007). An entrepreneurial orientation has been regarded as a main factor that influence firms to venture internationally and to enter the scope of international markets (De Clercq, Sapienza, & Crijns, 2005). The influence of entrepreneurship on internationalization has been noted in prior studies of entrepreneurial firm behaviour in international contexts (Autio, Sapienza, & Almeida, 2000; Zahra & Garvis, 2000). Zahra and Garvis (2000) asserted the positive outcome and

correlation exist between international renewal entrepreneurship process and international diversification and noted that entrepreneurial firms placed a greater emphasis on the scope of operations as they expand into new global regions. Furthermore, intangible entrepreneurial capabilities, as firm resources, are suggested to be a more significant driver of entrepreneurial economic activity than tangible firm resources (West, Bamford, & Marsden, 2008).

Recent entrepreneurial research has put forth the contention that an entrepreneurial orientation is a firm specific capability that motivates SMEs to overcome deficiencies and leverage intangible resources for internationalization in emerging markets (Yamakawa, Peng, & Deeds, 2008). A recent study in Malaysia by Senik *et al.*, (2014) observed that organizational capabilities with high entrepreneurial attitude has stronger triggering to internationalization. Historically, various studies have concluded the positive evidence of correlation between the entrepreneurial orientation and internationalization, and in particular for entrepreneurial firms (Zhang, Ma & Wang, 2012; Javalgi & Todd, 2011; O’Cass & Weerawardena, 2009; Spence & Crick, 2006; Fletcher, 2004; Knight, *et al.*, 2004; Andersen, 2004; Zahra & Garvis, 2000). Several studies cited that entrepreneurial managers influenced the choice and timing of international market entry (Andersson, 2000). The studies of new venture have also shown significant effect of entrepreneurship on firm internationalization (Yiu, *et al.*, 2007), and the study for new born global firms has shown a positive influence (Knight & Cavusgil, 2004), particularly for the small to medium-sized firms (De Clercq, *et al.*, 2005; Crick & Jones, 2000).



De Clercq, *et al.*, (2005) suggested that the development of an entrepreneurial culture at an early age will have positive intent for firms to internationalization and this development will allow more firms to be prepared and ready to pursue the international markets, and the entrepreneurial behaviour will facilitate these firms to venture the international market earlier than their competitors (Autio, *et al.*, 2000). The entrepreneurial attitude and capabilities of top management is paramount important for the firms when responding to rapid change, and competitive markets. Barney (1991) explained the importance of tangible and intangible assets of organization from the resource base view as a factor for internationalization and competitive advantage. Many researchers support that there are three main characteristic of entrepren

Risk taking is defined as the degree to which managers are willing to make large and risky commitments which are uncertain in return and may have higher possibility of failure” (Covin & Slevin, 1991; Miller & Friesen 1983). Firms with higher risk taking attitude in relative to marketplace opportunities will have better performance. Zahra and Covin (1995) argued that firms with high risk attitude are more willing to engage in business ventures or strategies that are very uncertain in terms of return. Lumpkin and Dess (1996) and Miller (1983) also pointed out that risk taking behaviour of firms include taking debt or using resources and technological innovation for potential return. Richard, Barnett, Dwyer, and Chadwick, (2004) viewed risk taking from the resource base view and defined it as a firm’s propensity to take business related chances with regard to strategic actions in the face of uncertainty.

Lumpkin and Dess (1996) defined innovativeness as a firm's tendency to engage in and support new idea, novelty, experimentation, and creative processes that may result in new products, services, or technological processes. The role of innovativeness was first introduced by Schumpeter (1934, 1942) which described innovativeness as a creative destruction process by which wealth is created when existing market structure are disrupted and new service or resources are reallocated to discover new opportunities and firm performance.

Covin and Slevin, (1989) and Miller and Friesen, (1978) defined pro-activeness as a firm's reaction to the external environment and to compete aggressively by introducing new product, services and administrative technique. Venkatraman (1989) defined pro-activeness as proactive behaviour of firm's resources in relation to emerging economies and search for market new opportunities and experimentation with potential external environment uncertainty. Pro-activeness is forward looking perspective that anticipates and acts on future wants and needs of customers or clients; therefore, it helps create a first mover advantage against competitor and for competitive advantage (Lumpkin & Dess, 1996).

Based on the above discussion the following hypotheses are formulated;

H2: Entrepreneurial orientation will have significant relationship with SME internationalization.

H2a: Risk taking will have significant relationship with the SME internationalization.

H2b: Innovative will have significant relationship with the SME internationalization.

H2c: Proactive will have significant relationship with the SMEs internationalization.

### **2.9.3 Environmental Uncertainty as Moderator to Strategic Planning Practices and SME Internationalization.**

The impact of external environment on business performance has been evaluated from many viewpoints. Akhter and Robles (2006) examined external environment in terms of managerial strategies and their impact on the choice of market entry strategy, and the uncertainty environment has been defined as the degree of ambiguity, lack of information, and lack of trust. Yeoh and Jeong (1995) identified the external environment has an important influence as a moderating variable between the strategic orientation and the export performance. Dean, Brown, and Bamford (1998) claimed that small businesses actually have an advantage operating in an uncertainty environment because they are more responsive and flexible despite their inherent lacking of resources.

The environmental scanning activities are continuous processes that are performed by the managers in planning process to discover and understand the risk and opportunities in the firm's business environment. These activities are becoming very important tasks for the managers in the strategic firms (Freel, 2005), and the details and high intensity of environmental scanning is highly required by the firms that are operating in the dynamic environment as this will determine their growth and survival. Scanning will provide

timely and current information for appropriate actions. However, the requirement for scanning intensity is lower for the firms operating in benign environment in which the competition is low and having loyal customers.

Firms that are operating in the dynamic environment are also required to practice flexibility in planning and thus be able to respond quickly to any changes in the market and trend (Ebben & Johnson, 2005). These responses should include threat, opportunity, competitor, policy and other challenges that may affect their survival and growth. However, firms that are operating in the stable or benign environment will have less pressure or impact for them to expand or planning effort, and less innovativeness and pro-activeness to external changes. According to Perez Lopez, Montes Peon and Vazquez Ordas, (2005), involvement of all level employees in the planning process could enhance the firm capability in identifying opportunities and their ability to respond quickly to the market demand. The higher levels of involvement are needed in particular for those operating in the dynamic business environment such as unpredictable, instability and higher level of change in demand and relevant factors (Bourgeois & Eisenhardt, 1988). However, the locus of planning may not be important for firms that are operating in stable and slow change environment.

The planning time frame for each firm are varied and can be from a less than a year to up to fifteen years. According to Das (1987) planning horizon is referred to the length of time frame that firm's management consider in making decision and this also respond to the needed time frame required to execute the firm's routine strategies (Camillus, 1982).

The planning horizon of less than 5 years may be suitable for firms that are competing in the turbulent environment which has short life and product cycle (Das, 1987). The ability of the firms to quickly respond and recognize the opportunity and threat to the changes in external environment is fundamental as such the relative short planning horizon coupled with the higher degree of planning flexibility will provide entrepreneurial firms to introduce new products or services (Covin, 1991).

The above factors and studies provide the support necessary to make a strong argument pertaining to the moderating impact of external environment on strategic planning practices and internationalization, and thus leading to the following hypothesis;

H3: Environmental uncertainty moderates the relationship strategic planning practices and internationalization of SMEs.

#### **2.9.4 Environmental Uncertainty as Moderator to Entrepreneurial Orientation and SME Internationalization.**

A study conducted by Kohli and Jaworski (1990) has shown the significant impact of environmental turbulence to the market orientation and that the environmental factor plays an important factor to the entrepreneurial orientation of SMEs. Yeoh and Jeong (1995) suggested that effect of export performance and entrepreneurial orientation is not direct and identified that the environment factors moderates the relationship between those variables. Gathungu, Aiko and Machuki (2014) observed a positive relationship between entrepreneurial orientation, external environment and performance of firms in dynamic market.

SMEs that are operating in both local and international markets will be exposed to all external operating environments and this exposure will impact the firm business ability negatively or positively (Ibeh, 2003). Non-entrepreneurial firms may have more impact as they are not adaptive to the environmental changes due to limited resources and lacking of capability (Zahra & Neubaum, 1998), while firms that are entrepreneurial will face the change positively and react it positively and ready to take risks. Miller (1983) and Zahra (1996) suggested the firms to adopt the innovative solution and response to external environment. The external business environment has been characterized along four dimensions; munificence, hostility, volatility, and complexity (Covin & Slevin, 1991). Dynamism deals with the perceived instability of market because of the changes in demand and preferences (Keats & Hitt, 1988). The understanding on the interface between the firm and environment is crucial as it provides new opportunities in particular for international expansion strategy (Akhter & Robles, 2006). Dynamism can also add to the rivalry between businesses. When rivalries increase, the amount of risk taking may also increase, in addition to the risk of failure (Keats & Hitt, 1988). Also, firms may move to implement new programs ahead of their rivals. Thus, an entrepreneurial orientation helps business respond to change.

The characteristics of hostile environment are instability of industry ecosystem, having strong competition, lacking of opportunities and overwhelming of business climate (Yeoh & Jeong, 1995; Dess & Beard, 1984; Miller & Friesen; 1984). Research findings suggest that environmental hostility has a strong association with entrepreneurial orientation

(Keats & Hit, 1988). The fact that entrepreneurial orientation is associated with acceptance of risk and uncertainty leads to the assumption that the firms with a high entrepreneurial orientation would naturally be able to adapt to a changing environment. According to Ibeh (2003), small business exhibiting characteristics consistent with an entrepreneurial orientation, are more successful while operating in a hostile environment. He proposed that firms with high export-entrepreneurial orientation, which face hostile operating environment, are more likely to initiate export venture (Ibeh, 2003). Covin and Slevin (1989) found that in an environment experiencing fierce competition, and with limited growth opportunities, entrepreneurial firms were more successful in establishing a competitive advantage due to the ability to create and exploit opportunities.

In another Zahra (1993) found that hostility moderates the relationship between entrepreneurship and the company's financial performance. Thus, it is expected that the higher level of environmental hostility would lead to higher intensity entrepreneurial orientation of a business. Shehu and Mahmood (2014) found positive relationship between performance and external environment in Nigeria while Jabeen and Mahmood (2014) investigated the moderating effect of external environment on the relationship between entrepreneurial orientation and performance of SMEs in Pakistan found that external environment moderates the relationship between EO and business performance.

Meanwhile heterogeneous environment is one that is complex, thereby providing new areas where products and services can be offered. When heterogeneity increases, there

will be a greater need for an entrepreneurial orientation due to a diversity of customer needs and expectations (Miller & Friesen, 1984; Zahra, 1991). The environmental factor is identified in the literature that leads to a degree of environmental uncertainty. The literature also indicates that external environment is a moderating variable in many cases involving the analysis of the success of a business. The entrepreneurial innovativeness, risk taking and proactiveness are often associated with uncertain condition of external environment and entrepreneurial behaviour are often increases during the uncertainty external environment (Lumpkin & Dess, 2001; Yeoh & Jeong, 1995). Therefore the firm that promotes the entrepreneurial activities are always performing better than those are not. A study conducted by Pratono and Mahmood (2014) observed a significant relationship between organization structure, reward system and environmental turbulence to the firm performance. The study indicated significant relationship exists between entrepreneurial management and firm performance.

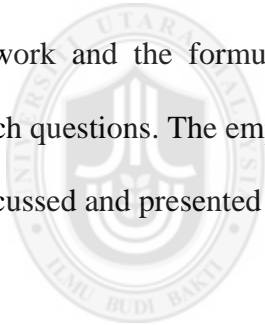
The above factors and studies provide the support necessary to make a strong argument pertaining to the moderating impact of external environment on entrepreneurial orientation and internationalization, and thus leading to the following hypothesis;

H4: Environmental uncertainty moderates the relationship between entrepreneurial orientation and internationalization of SMEs.



## 2.10 Chapter Summary

This chapter discussed and reviewed relevant literature on the independent variables, moderating variable and dependent variable as well as the development of conceptual model for the study. In this chapter, the evolution of various concepts have been discussed thoroughly to gain an understanding on the nature of firm's internationalization process from perspectives of Uppsala Model (stage model), and resource based view approach. This chapter also discussed all the relevant variables for this study that is strategic planning practices, entrepreneurial orientation, external environment, and the theoretical underpinning of the study leading to the development of the theoretical framework and the formulation of hypotheses related to the research objectives and research questions. The employment of the appropriate research method for the study will be discussed and presented in Chapter Three.



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## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.1 Introduction**

The purpose of this chapter is to describe the research methodology used to test the hypotheses identified in chapter 2. The relevant hypotheses proposed are based on the literature available and with the main objectives to answer the problem statement, the research questions and to provide an additional input to existing body knowledge in the area of SMEs internationalization, particularly from Malaysian perspective. In this chapter, the detailed explanation on how the study has been carried out will be presented and this include the research design, source of data, population sample, sample size, data collection procedure, measures, reliability and validity, pilot test and statistical analysis used to test the hypotheses.

#### **3.2 Research Design**

Hair, Black, Babin and Anderson (2010) defined research design as a master plan that specifies method and procedure for collecting and analysing the required data. As such, the objectives of study are to be specified from the inception and to make certain that all the information collected would be suitable for solving the problem mentioned. Research design provides a structure for the whole process of the study (Wolfenbarger, Ortinau, & Bush, 2010). And for this study it is to empirically test the relationship between strategic

planning practices, entrepreneurial orientation and moderating effect of environmental uncertainty on the internationalization of Malaysian SMEs. This study employed quantitative approach, and survey method was used to gather the data. This technique has been acknowledged and widely used in social science research for data gathering (Hair *et al.*, 2010). The study also employed structured questionnaire survey instrument based on the measures used in past research. Questionnaire survey has been regarded to be the most general and appropriate method of collecting data for this study (Hair *et al.*, 2010).

This study is correlational in nature since the primary objective was to identify variables that might influence SME internationalization. According to Watson, Stewart, and BarNir (2003), the purpose of correlational study is to investigate the relationship to which variations in one factor correspond with variations in one or more factors based on the correlation coefficient. For this study, the relationship between each dimension of strategic planning practices, entrepreneurial orientation and internationalization of Malaysia SMEs were examined.

### **3.3 Population and Sampling**

The population of study is the manufacturing SMEs which are involved in the exporting businesses. The sampling frame consists of relevant companies and addresses as listed in the Directory of Malaysian Exports 3<sup>rd</sup> edition published by Malaysia External Trade Development Corporation (MATRADE). The SMEs selected for this study fall under the definition of Malaysia government as follows:

- Manufacturing SMEs: Sales turnover not exceeding RM 50 Mil OR full-time employees not exceeding 200 workers

According to the list of the companies for the year 2010, there were 9889 manufacturing SMEs in Malaysia. Table 3.1 shows the distribution of manufacturing SMEs in Malaysia.

Table 3.1

Distribution of Malaysian SMEs in manufacturing sector

No	States	No. of Companies	Percentage (%)
1.	Selangor	2441	31.3
2.	Kuala Lumpur	2217	28.5
3.	Johor	1010	13.0
4.	Penang	931	12.0
5.	Others	1190	15.3
	<b>Total</b>	<b>7789</b>	<b>100</b>

Source: Malaysia External Trade Development Corporation (MATRADE) 3rd Edition 2010

From the Table, 2,441 (31.3%) of the SMEs are located in Selangor, 2,217 (28.5%) are located in Kuala Lumpur, 1,010 firms (13.0%) are in Johor, 931 firms (12.0%) in Penang and 1190 firms (15.3 %) are located in other states. A total of 5668 (72.8%) of these firms were located in three most important industrial sites (Selangor, Kuala Lumpur and Johor) and of which there were about 3000 firms identified as respondents because they met the criteria specified. Therefore a total of 3,000 manufacturing SMEs formed the population for this study.

Determining sample size is a vital in a survey research (Barlet, Kotrlik & Higgins, 2001). Loehlin (2004) acknowledged that determining size of samples is important since it affect the outcome of the research results. Sample sizes which are below the appropriate number will be of little scientific value because the findings cannot be generalized as representative to the existing population (Pallant, 2005). For this study, the population was 3000 exporting SMEs and according to Slovin's formula, the number of respondents to be studied can be determined as follows:

$$n = N / (1 + N * E^2)$$

n = sample size

N= population size

E = margin of error

1 = constant value.

Slovin's formula allows a researcher to sample the population with desired degree of accuracy. It gives a researcher an idea of how large his sample sizes need to be to ensure a reasonable accuracy of results. The margin of error is a statistic expressing the amount of random sampling error in a survey's results. It asserts a likelihood (not a certainty) that the result from a sample is close to the number one would get if the whole population had been queried. The likelihood of a result being "within the margin of error" is itself a probability, commonly 95%, though other values are sometimes used. In this study the confidence level was set at 90 per cent or 10 per cent errors. Therefore, the number of respondent required:

$$n = N/(1+Ne^2)$$

$$n = (3000/(1+3000 \times 0.1 \times 0.1))$$

$$n = (3000/31)$$

$$n = 96.8 \text{ round up to } 97$$

However, based on Krejcie and Morgan (1970) a specified sample size determination criterion was used. According to the sample size table generated by Krejcie and Morgan (1970) for a 3000 population, a sample size 341 would be required to represent the population of this study. Because the researcher was not confident of getting 100 per cent response rate, the sample size was increased by 50% in order to minimize low response rate from those respondents that might not cooperate (Salkind, 1997). Therefore, a total of 511 questionnaires were distributed to the potential respondents which are more than 50% of the intended sample size.

The unit of analysis is organization. However, using firm level as a unit analysis could be problematic for some researchers (Katsikeas, Leonidou & Morgan, 2000). Knight and Cavusgil (2004) argued that there are scholars who prefer a firm's export venture for most of their constructs. Strategic planning practices and entrepreneurial orientation are profoundly entrenched in the organization rather than department level and constitute beliefs and shared values throughout the organization (Knight & Cavusgil, 2004). In addition, Slater and Narver (2000) posited the firm level as appropriate unit of analysis for export studies. Therefore, firm level as a unit of analysis is appropriate for this study and the target respondents were top management either CEO, owner or export manager..

Top management are suitable key informant as they are well informed about the entire activities of the firms and could offer necessary information on the issue raised (Swink, 2000). The top management were also chosen because they have better view of entire organization. This in line with previous research of Brush and Vanderwerf, (1992) and Chandler and Hanks, (1994) who argued that top executives of small entrepreneurial firms normally represent the view of entire firms.

### **3.4 Data Collection Procedure**

Creswell (2013) described data collection as a process of identifying and selecting individual to study, obtaining their permission to study them and gathering information by asking people questions or observing their behaviour. Zikmund, Babin, Carr and Griffin, (2013) described survey as a method for primary data collection based on the communication with a representative sample of individual. Hence, survey method of data collection was employed in this study which entails asking respondent questions in form of written questionnaires to collect data mail with major goal of collecting representative sample. The use of questionnaires for this study gives a uniform frame of reference for respondents to decide their answers.

The questionnaires were mailed to 511 respondents. The questionnaire inclusive of a cover letter was placed in an envelope and sent to the respondents through post. A returned envelope with the researcher's self-address was also included together with the questionnaire. This procedure is reported to be the most common practices to collect data

from the SMEs (Bartholomew & Smith, 2006; Spoul, 1986). The questionnaires were sent to only manufacturing SMEs in selected states to minimize bias that may arise due to characteristics unique to individual industries. The sampling frame used to gather data for the main study consisted of a cross section of firms located in Kuala Lumpur, Selangor, and Johor. The decision to restrict sample size to firms within these areas was to minimize the influence of differences related to knowledge, technology, environmental and complexity (Robinson & Pearce, 1988; Wolff & Pett, 2000).

### **3.5 Measures and Instrumentation**

The survey questionnaire in this study was developed to assess the relationships between strategic planning practices, entrepreneurial orientation and SME internationalization. The external environment functions as a moderator variable. There are two main independent variables in this study; the strategic planning practices which have four dimensions that is; external environment scanning intensity, planning flexibility, locus of planning, and planning horizon, and entrepreneurial orientation with three main dimensions, that is risk taking, proactive and innovative. The questionnaire was made up of five sections A, B, C, D, E and F. Section A comprised of items measuring entrepreneurial orientation intensity relating to risk taking, innovative and proactive , while Section B comprised of items measuring strategic planning practices relating to scanning intensity, locus of planning, planning flexibility and planning horizon. In Section C there are items measuring environmental uncertainty, and in Section D it comprised items measuring the internationalization of the firm. Section E and Section F



consisted questions representing the profile of the firm and demography of the respondents, respectively (refer to Appendix A).

### **3.5.1 Measures of Internationalization**

The term internationalization is referred to the export performance of the firm that is a ratio of export sales to total sales (Arora, Jaju, Kefalas & Perenich, 2004). Cavusgil and Zou (1994) defined export performance as the degree at which corporate objectives are achieved in terms of financial measures while Preece, Miles and Baetz, (1999), and Yeoh, (1994) reported the percentage of foreign sales to total sales as the best indicator to measure the firm's export performance. The operationalization of export performance has been plagued with lack of consensus and a variety of conflicting viewpoints (Fletcher, 2004). Export performance can be perceived from two theoretical paradigms, namely; resources based view (internal factor) and contingency view (external factor) (Aaby & Slater, 1989). Resources based paradigm presumed that export performance of a firm is based on its size, competencies and experiences; whereas contingency paradigm recommended that export performance and firms' strategies are inclined by the environmental factors (Zhou & Stan, 1998). Nonetheless there is no universal agreement among scholars of export performance on its measurement scale (Katsikeas, Leonidou & Morgan, 2000).

The difficulty and disagreement with the proper measure of export performance, found in the literature, is partly due to the fact the performance assessment is a very complex issue

because smaller firms are hesitant to report financial information concerning international activities, especially to outsiders (Katsikeas, *et al.*,(2000). In order to circumvent the issue with reporting a firm number, a choice was provided in the scale so that a range could be checked. Many researchers (Souise, Martinez-Lopez & Coelho, 2008; Lu & Beamish, 2001) have used foreign sales to determine export ratio and to measure the international business performance.

The internationalization measures used in this study is adopted from modified scales of Cadogan *et al.*, (2009)'s measurement of export performance; sales growth, profits, market share, new market entry, and new product development. Export performance was measured on a subjective perspective involving self-reported measures. The respondents were asked to state their opinions on their firm's internationalization performance based on a seven-point Likert type scale ranging from 7 (very satisfied) to 1 (very unsatisfied). The scale items for measurement of internationalization are listed in Table 3.2 below:

Table 3.2

Items of Internationalization Measures

- 
1. Sales growth rate
  2. Export profits
  3. Export market share
  4. Rate of new market entry
  5. New product development
-

### 3.5.2 Measures of Entrepreneurial Orientation

The entrepreneurial orientation scale employed in this study is based on the work previously conducted by Naman and Selvin (1993), Covin and Slevin (1989), and Khandwalla (1997). The scale has been empirically tested in numerous studies such as Hult, Hurley, and Knight (2004); Hult, Snow, and Kandemir, (2003); Hult, Ketchen and Nichols, (2002); Zahra and Covin, (1995); Naman and Slevin, (1993), and Covin and Slevin, (1989). The entrepreneurial orientation measures consist of nine items. According to Kreiser et al (2002), the three dimensions namely; risk-taking, innovativeness, and pro-activeness measure the entrepreneurial orientation of a firm.

The first dimension of entrepreneurial orientation, risk taking is defined as the extent to which top management are inclined to take business related risks with regards to investment decisions and strategic action in the face of uncertainty (Covin & Slevin, 1988; Miller 1983). An entrepreneurially oriented firm would be characterized by relatively risky firm level behaviours. Such a strategic orientation reflects, in part, the pursuit of very high returns, as opposed to a propensity to engage in activities with lower but more predictable rate of return (Covin & Slevin 1990). According to Wiklund and Shepard (2003) risk-taking behaviour is an inclination to commit resources to strategic actions despite highly uncertain outcomes, and a willingness to forgo the tried and true of the past. As one of the three facets of the EO scale, it was designed to assess firm level risk taking by capturing management's preference for projects with potentially higher but less certain returns versus those with lower but more certain returns.

Innovativeness is the second dimension of entrepreneurial orientation. Lumpkin and Dess (1996) defined innovativeness in entrepreneurship as a firm's propensity to develop new products, services or technological processes through novel solutions to challenges. In this study, innovativeness is defined as the extensiveness and frequency of product innovation and technological leadership in order to obtain a competitive advantage for the firms (Covin & Slevin, 1988; Miller, 1983). Lumpkin and Dess (1996) further classified innovation as either product market or technological, and product market innovation focuses on the product design, market research, advertising and promotion (Miller & Friesen, 1978). Innovativeness is considered as an important component of EO, and it is designed to assess the firm's emphasis on research and development and technological leadership, the number of new product lines or services marketed, and the nature of changes, if any in existing product line or services.

The third dimension of entrepreneurial orientation adopted for this study is proactiveness. It is defined as the pioneering nature of firm as evident in its propensity to compete aggressively with other firms (Miller, 1983). According to Venkatraman (1989), proactiveness reflects a proclivity to pursue new opportunities by anticipating and acting on future needs by being the first to market with new product or services. As such, proactiveness represents a forward- looking perspective and willingness to initiate actions through innovative activity (Lumpkin & Dess, 1996). According to Dess, *et al.*, (1997) the result can be first mover advantages and superior performance. In capturing these dimensions of the construct, the EO scale asks managers to assess their firm's propensity

to shape the environment through their actions, new products or services and competitive nature.

The scale of items on all three dimensions of entrepreneurial orientations is listed in Table 3.3 below. The items were measured on a seven-point scale where a scale of 7 represents 'strongly agree', and a scale of 1 represents 'strongly disagree'.

Table 3.3  
Items of Entrepreneurial Orientation Measures

---

<b>Risk Taking</b>
1. High risk project with chances of very high returns.
2. A bold aggressive posture in order to maximize the probability of exploiting potential when faced with uncertainty.
3. Owing to the nature of the environment, bold, wide ranging acts are necessary to achieve the firm's objectives.
<b>Innovativeness</b>
4. A strong emphasis on the marketing of tried and true products and services
5. Many new lines of products and services
6. Changes in product or service lines have been quite dramatic
<b>Proactiveness</b>
7. Typically initiates actions to which competitors then respond
8. Is very often the first firm to introduce new products/services, operating technologies etc.
9. Typically adopts a very competitive, undo-the-competitors' posture

---

### **3.5.3 Measures of Strategic Planning Practices**

The strategic planning practices scale developed by Barringer and Bluedorn (1999) was adopted for this study. It comprises of four dimensions namely; environmental scanning intensity, planning flexibility, locus of planning and planning horizon.

#### **1. Environmental Scanning Intensity**

Hambrick (1982) suggested that managers scan the external environment to identify the potential of threat and opportunities in developing the strategies to improve the firm performance. Barringer and Bluedorn (1999) posited that scanning of external environment is critical as it provides information gathered to the decision makers in strategy formulation and implementation, and many researchers such Beal, (2000), Elenkov (1997), and Miller and Friesen (1982b) have used the scanning intensity scale for their studies.

Two concept of scanning have been operationalized in this study; the dedication of efforts and comprehensiveness of the scanning process taken by the organizations (Miller & Friesen, 1982). The scale was used by the Morris and Sexton in (1996) and later by the Bhuian, Menguc and Bell (2005). For this measure, the respondent was asked to indicate the firm's scanning activities based on the Likert type scale ranging from 7 to 1, in which '7' indicates used frequently and '1' indicates never ever used. Through this indication, the study would be able to indicate how thorough the firm measures the external

environment to gather the important information for decision making process. Therefore, the higher the index, the higher level the effort and comprehensiveness of the scanning intensity. The scale of the items on Scanning Intensity is listed in Table 3.4 (1) below:

Table 3.4 (1)

Items of Scanning Intensity

- 
1. Routine gathering of opinions
  2. Explicit tracking of the politics
  3. Forecasting sales, customer preferences, technology etc.
  4. Special marketing research studies
  5. Gathering of information from suppliers and other channel members
- 



**2. Planning Flexibility**

According to O'Regan and Ghobadian (2004) planning flexibility is the extent of ability and capability of a firm's action and response to any changes to business environment either opportunities or threat to the organization. They also suggested that managers to adopt the flexibility in planning process in order to survive and grow in the dynamic business environment. Likert type scale ranging from 7 to 1 was used to indicate the level of difficulty, in which '7' indicates not at all difficult and '1' very difficult. This measure indicates the ability of the firms to change their strategies and plan in accordance to market situation and the mean score, averaged across the items, assesses the degree of

planning flexibility in the organization. The scale of the items on Planning Flexibility is listed in Table 3.4 (2) below:

Table 3.4 (2)

Items of Planning Flexibility

- 
1. The emergence of a new technology
  2. Shift in economic conditions
  3. The market entry of new competition
  4. Changes in government regulations
  5. Shift in customer needs and preferences
  6. Modifications in suppliers strategies
  7. The emergence of an unexpected opportunity
  8. The emergence of an unexpected threat
  9. Political developments that affect the industry
- 

### 3. Locus of Planning

Reid (1989) defined locus of planning as the level of involvement of employees with the top management in planning activities of the firm. A high locus of planning indicates that all level of employees are involved in the planning process and this is very similar to the team building concept which encourages the participative management style. The levels involve top management, middle management, lower level management, and rank and file employees. According to Anderson (2004) and Covin (1991), the more levels are involved in the decision making process would give better input for firms to understand the business environment and market demand, and thus strategize the move for better



decision result. Decentralized approach of strategy planning process would facilitate opportunity identification (Anderson, 2004).

The items and scale for locus of planning used for this study are adapted from the measures identified by Hage and Aiken (1970) and this was adapted by Miller (1978). Anderson (2004) also used this measure for his study and postulated that in the strategic planning process the decentralized strategy making process is important in the uncertainty environment. The same measure was used by Wang and Tai (2003) to investigate the formalization and centralization of the planning process. Respondent was asked to indicate how true or false the statements in relevant to their organization practicing in distribution authority for the decision making. A seven point Likert type scale was used which ranges '7' as definitely true and '1' as definitely false. The higher the scale the higher the participatory involvement of hierarchical in the organization in the planning process. The scale of the items on Locus of Planning is listed in Table 3.4 (3) below:

Table 3.4 (3)

Items of Locus of Planning

---

1.	Can start major market activities without approval
2.	Can market to new customer segments without approval
3.	Need no approval to initiate new product development
4.	Can introduce new practices without approval
5.	Need no approval to develop new internal capabilities

---

#### 4. Planning Horizon

The planning horizon assessed the predetermined time period a firm practices on its business strategies or investment. There are three categories of predetermined period stated; less than 1 year, between 1 to 3 years, between 3 to 5 years, and more than 5 years. The different hierarchical levels of planning horizon was also included in the questionnaires and this is to understand on what degree of emphasis is being considered on managing a business strategies and firm investment at the different levels of hierarchy; board of directors, top management, middle management, and lower level management. The Likert type scale ranging from 7 to 1 was used in this study to assess the degree of emphasis in which '7' indicates considerable emphasis and '1' indicates very little emphasis. In this study the emphasis was placed on planning horizon of more than 5 years. The 5 years is arbitrary for the measurement of long term planning, and it has been used in the past studies as a benchmarking in dividing line between "long" (more than 5 years) and a 'short' (less than 5 years) (Kukalis, 1989; Lindsay & Rue, 1980; Rhyne, 1986). The scale of the items on Planning Horizon is listed in Table 3.4 (4) below:

Table 3.4 (4)

##### Items of Planning Horizon

1.	Less than 1 year
2.	1 to 3 years
3.	4 to 5 years
4.	More than 5 years

### **3.5.4 Measures of Environmental Uncertainty**

The external environment has been characterised as turbulence, hostility, and dynamism. Dess and Beard (1984) described turbulence as a condition in which the external environment's unpredictability, instability, and complex in terms of management and financial. Hostility environment refers to intense competition and rapid change of technology and product, while dynamism is the market that faces unexpected change and difficult to predict. The external environment has an impact on the entrepreneurial orientation intensity, strategic posture and firm performance (Zahra, 1993). A firm has to deal with the uncertainty strategically in which the higher the level of turbulence, hostility and dynamism requires more attention and focus by the firm as the situations are becoming more uncertain and unpredictable (Hamel & Prahalad, 1994).

This study adopted the measures developed by Naman and Slevin (1993). The measures have been used by many researchers including Robertson and Chetty (2000), and Rasheed (2005). The items were measured on a seven point Likert scale where '7' represents 'strongly agree', and '1' represents 'strongly disagree'. The scale of items on Environmental Uncertainty is listed in Table 3.5 below

Table 3.5

Items of Environmental Uncertainty Measures

---

1.	The external environment our firm operates in has a high level of risk and uncertainty
2.	The external environment poses serious threats to our firm's survival and well-being
3.	Our firm must deal with a wide range of external environment influences
4.	Declining markets for products are a major challenge in our industry
5.	Tough price competition is a major challenge in our industry.
6.	Government interference is a major challenge in our industry.
7.	Our business environment causes a great deal of treat to the survival of our firm.
8.	The rate of product and service obsolescence in our industry is high
9.	In our firm, the modes of production and service change often and in many ways.
10.	Our firm must change its marketing practice frequently.
11.	In our industry, actions of competitors are unpredictable.
12.	In our industry, demand and customer tastes are unpredictable.

---

### 3.6 Validity and Reliability

Establishing the validity and reliability of the survey measures is essential before the instruments could be used in the study. Validity and reliability are two frequently encountered concepts in the measurement and instrumentation.

### 3.6.1 Validity

Validity is described as the right method and data (Denscombe, 2010), and it is about whether an instrument measuring what it wants to find out and it is designed for (Field, 2009). According to Hair *et al.*, (2010) validity represents the accuracy of measure or the extent to which a score truthfully represent a concept. The ability of measure to correlate with other standard measure of similar construct is shown through criterion validity, and a construct is considered to be valid when it dependably and candidly represents a unique concept (Zikmund, *et al.*, 2013). Construct validity is when a measure reliably measures and truthfully a unique concept (Hair *et al.*, 2010). The assessment of construct validity could be performed through convergent validity and discriminant validity. Convergent validity is the extent of positive association of the construct with other measures of the same construct while discriminant validity demonstrates the degree to which the construct does not show a relationship with other measures that are similar to it (Hair, *et al.*, 2014). This study examined the convergent validity by examining the average variance extracted of each latent construct. Discriminant validity was also ascertained in this study by comparing the correlation among the latent construct with the square roots of average variance extracted as suggested by Fornier and Larcker (1981).

### **3.6.2 Reliability**

Reliability is a measure that indicates the extent to which a measure is without bias and hence offers consistent measurement across time and across the various items in the instruments (Cavana, Delahave & Sekaran, 2001). According to Denscombe (2010) for the instruments to be reliable it has to reflect the consistency in interpretation across different situations. Reliability of this study was improved in four ways; plainly conceptualizing all constructs, using of measurements level that are precise, making use of multiple indicators and through pilot test (Neuman, 2002). In this study the reliability of the measures was ascertained by PLS-SEM algorithm through examination of individual items reliability, internal consistency reliability, convergent validity and discriminant validity.

### **3.7 Pilot Test**

A pilot study was conducted to ascertain whether the items in the questionnaires were clear and acceptable as well as to test out and refine the procedures pertaining to instrument administration. This pilot study was conducted to ensure that the targeted respondents in this study would understand clearly the instructions and statements in the questionnaire. Based on the comments and responses, the items were carefully reviewed and refined to avoid any ambiguity, and to ensure sentence clarity and conciseness. The pilot test has helped the researcher to include or delete some of the items that would not suitable or understood by the respondents. There was also a pre-test of small sample of

respondents from the exporting industry and the academicians who were asked to read the questionnaires and pass their professional judgments.

The purpose of pilot study is to ascertain the reliability and validity of the measures used (Sekaran & Bougie, 2013). In this pilot study a total 150 manufacturing SMEs were randomly selected and sent with the questionnaires. A total of 78 completed questionnaires were returned and usable for pilot testing. PLS path modelling was used to ascertain the internal consistency reliability and discriminant validity of the constructs used. Following Hair, Ringle and Sarstedt, (2011) and Fornier and Larcker (1981) suggestions, the composite reliability coefficient should be at least 0.70 or greater , and the average variance extracted (AVE) score should be 0.50 or more and the square root of the AVE should be greater than the correlation among the latent constructs. Table 3.6 below presents the average variance extracted and composite reliability coefficients of the latent constructs used in this study.

Table 3. 6  
Composite Reliabilities and Average Variance Extracted for latent Variables

Latent Variables	Indicators	Composite Reliability	AVE
DOI	4	0.935	0.784
EO	9	0.809	0.689
SPP	23	0.760	0.554
UE	12	0.905	0.550

Table 3.6 also shows the composite reliability coefficient of each latent construct. It ranged from 0.760 to 0.935 each and above the cut-off point of 0.70. This indicates that

the measures used have sufficient internal consistency (Hair, Hult, Ringle & Sarstedt, 2014), while the values of AVE ranged from 0.550 to 0.784, which means all the values are within the acceptable values.

Table 3.7  
Square Root of AVE and Correlations of Latent Variables

	DOI	EO	SPP	UE
DOI	<b>0.886</b>			
EO	0.464	<b>0.768</b>		
SPP	0.645	0.534	<b>0.674</b>	
UE	0.611	0.608	0.592	<b>0.667</b>

According to cross loading criterion (Chin, 1998), the loading of each indicator is expected to be greater than all of its cross loadings. These two measures are complimentary because the Fornier- Larcker criterion assesses discriminant validity on the construct level, while the cross loading allows this kind of evaluation on the indicator level. From Table 3.7 the loading for each indicator was greater than all of its cross loading. Therefore, the measurement model has demonstrated adequate discriminant validity.



### **3.8 Statistical Assumptions**

Hair et al., (2010) argued that it is vital to refer to some basic statistical assumptions regarding the constructs employed in the study so as to be able to confirm the results and in order to effectively deal with incidence of errors. Three of the statistical assumptions are linearity, normality, and multi-collinearity.

#### **3. 8.1 Linearity**

Linearity predicts the value that fall on the straight line by processing a continuous unit change of dependent variable for continuous unit change of the independent variable. However, the correlation represents only the linear association between variables and non-linear would not be represented in correlation value. Before the PLS algorithm was used for measurement and structural model, this study generated scatter plots through SPSS version 22 to explore the relationships among the variables used. The scatterplots in the study depict that the variable used have linear relationship or straight line (Pallant, 2011).

#### **3.8.2 Normality Test**

Normality assumes that each variable and all the linear combination of the variables are normally distribute (Tabchnick & Fidell, 2007). Normality is crucial for multivariate analysis. However, this study employed smart PLS-SEM, a non-parametric statistical

method. The assumption in PLS-SEM is that data does not necessarily need to be normally distributed (Hair *et al.*, 2013), however, the data of this study was verified for normality to ensure that the data is not far from normal or extremely normal.

### **3.8.3 Multicollinearity**

Multicollinearity is the degree to which independent variables are highly correlated with one another. Multicollinearity may have a devastating effect on the regressions to the extent of rendering them useless or the results highly misleading (Hair *et al.*, 2006). Multicollinearity can be measured through the tolerance value or by variance inflation factor (VIF). When the results of VIF in each independent variables are equal to 1.0, this means that these variables are uncorrelated to each other. Multicollinearity exists when the tolerance value is less than 0.10 or when the variance inflation factor (VIF) is more than 10.0 (Hair *et al.*, 2006).

### **3.9 Correlation Analysis**

Correlation analysis is normally performed among variables in each hypothesis to ascertain the scope and importance of any relationships. According to Hair, Money, Samouel and Page (2007), the correlation analysis is a measure of an association between two or more variable and it is a technique for indicating relationship of one variable to another (Zikmund *et al.*, 2013). The relationship can be positive or negative. Positive correlation is said to occur when the changes in one variable are followed by

changes in the other variable and in the same direction, while negative correlation takes place when in the same strong relationship two variables change in the opposite direction and zero correlation takes effect when there is no clear tendency for the value of one variable to move in particular direction with changes in another variable (Hair *et al.*, 2007; Zikmund *et al.*, 2013). In this study correlation is calculated from the standardized measure of covariance. Covariance is the degree that a change in one variable corresponds steadily to a change in another, thus, a correlation coefficient is a numerical measure of covariation. This study employed correlation matrix of the exogenous construct to determine the extent and the significance of the relationship that exist among variables.

### **3.10 Data Analysis**

The study employed PLS path modelling and particularly using PLS 2.0 M3 as suggested by Ringle, Wende and Will (2005). PLS was chosen because of its capability of maximizing the explained variance in the dependent variable and it is suitable for small sample size (Chin, 1998; Chin & Newsted 1999; Gefen, Straub, & Boudreau, 2000; Hair *et al.*, 2014). Partial Least Squares (PLS) path modelling was used to generate structural model and analyse the relationship between the variables. In addition, PLS is able to model the latent constructs under non normality and capable to answer a set of interrelated research questions in a single, systematic, and comprehensive analysis by modelling the relationship among multiple independent and dependent construct simultaneously (Anderson & Gerbing, 1988). As Bass, Avolio, Jung and Berson (2003)

asserts, “PLS is useful for structural equation modelling in applied research projects especially when there are limited participants and that the data distribution is skewed” (as cited in Kwong and Wong, 2013, p.3) . PLS-SEM has been deployed in many fields, such as behavioural sciences (Bass *et al.*,2003), marketing (Henseler, Ringle & Sinkovics, 2009), organization (Aibinu,& Al-Lawati, 2010).), management information system (Chin, Marcolin, & Newsted, 2003) and business strategy ( Hlland,Richard Ivey, 1999). The data analysis procedure using PLS in this study followed these steps; the data collected was screened using SPSS Version 22 to ensure its suitability for the PLS analysis. Followed by ascertainment of the measurement model (individual items reliabilities, internal consistency, discriminant validity and convergent validity) (Hair *et al.*, 2011). Thereafter, bootstrapping procedure with a number of 5000 bootstrap was used to evaluate the structural model (Henseler *et al.*, 2009). The significance of the path coefficient, level of R square were evaluated as suggested by Hair *et al.*,(2014). All of these assessments and moderating analysis were then conducted (Henseler & Chin, 2010).

### **3.11 Chapter Summary**

Chapter Three explained the research design, population of study and the sampling procedure. The chapter also presented the operationalization of measures and instrumentation, the data collection process and the techniques of data analysis. The validity and reliability, and the employment of PLS SEM in the final analysis of data

were described. The descriptive and inferential analyses of data and discussion of findings will be presented in the next Chapter.



## **CHAPTER FOUR**

### **DATA ANALYSIS AND FINDINGS**

#### **4.1 Introduction**

In this chapter the result of data analyses using SPSS version 22 and PLS-SEM will be presented. The presentation starts with data collection and survey response, the explanation of response rate and the process of data selection for analysis and the descriptive statistics on the demography of the respondents and firms. It will be followed by the assessment of PLS-SEM path model result; individual item reliability, internal consistency reliability, convergent validity, and discriminant validity. Finally the assessment of the structural model will be presented together with the assessment of the significant path coefficient, evaluation of the level of R-squared values and examination of moderating effect on the proposed variables.

#### **4.2 Collection Procedure and Survey Response**

A total of 3000 manufacturing SMEs were identified as the population of study, and they were selected from the three states in Peninsular Malaysia because they met the criteria specified. A systematic random sampling technique was employed in selecting the sample to enable it to generalize to the population of study. This technique enables each individual in the population to have an equal chance of being selected. It is also suggested that the sample size should be sufficiently large enough to approximate the

characteristics of the population satisfactorily and provides a credible results (McMillan & Schumacher, 2001).

This study adopted the guidelines developed by Krejcie and Morgan (1970) for sample size decisions. Based on the total population of 3000 manufacturing SMEs, the appropriate sample size should be 341. However, a mail survey research is always being associated with low response in the data collection, and to overcome the probability of not getting adequate responses, the number of questionnaires sent out to the targeted respondents should be higher than the intended sample needed, and in this study an additional 50 percent of 341 was added making a total of 551 questionnaires distributed.

The questionnaires were mailed to the respondents together with a cover letter which gave an understandable explanation of the purpose of study besides giving the respondent assurance of anonymity and confidentiality (Hair et al, 2006). A return envelope with the researcher's self-addressed was also included together with the questionnaire. Of the total 551 questionnaires distributed, 265 questionnaires were received, yielding a response rate of 51.9 per cent. Of these, 15 responses were found to be non-usable due to excessive missing or incompleteness such as not in manufacturing business, and or questionnaire was not answered by identified personnel. The remaining 250 questionnaires received were accepted, coded and entered into SPSS. Although the numbers of responses are not large enough to meet the intended sample size, it is still acceptable taking into consideration the time constraints and cost incurred. Sekaran and Bougie (2013) also suggested that a response rate of 30 percent is sufficient for any survey research.

### **4.3 Data Screening and Preliminary Analysis**

Data screening is a process to ensure the accuracy of the data keyed into the program. It involves checking mistakes at initial stage and identifying any possible violations of the key assumptions regarding the application of multivariate techniques of data analysis (Hair et al., 2007). After the data screening process, all the 250 usable questionnaires were coded and entered into the SPSS.

#### **4.3.1 Normality Test**

Hair et al., (2014) posited that PLS-SEM makes no assumption about the normality of the data distribution while Hensler (2009) argued that PLS provides accurate model estimation in situation with extremely non-normal. However, all of this assumption might turn out to be on the contrary and as such Hair, Sarstedt, Ringle and Mena (2012) recommended that researchers should also perform a normality test on the data. They argued that this is to avoid a highly skewed or kurtosis and inflated bootstrapped standard error estimate which in turn underestimate the statistical significance of path coefficient (Ringle, Sarstedt & Straub, 2012).

Normality can be assessed either through statistical or graphical methods. Two components of statistical normality are skewness and kurtosis. Skewness refers to the symmetry of a distribution where a variable whose mean is not in the centre of the distribution. Kurtosis relates to the peakedness of a distribution. When a distribution is



normal, the values of skewness and kurtosis should be close to zero (Tabachnick & Fidell, 2007). For graphical method, normality can be determined by examining the residual plots. If assumption is met, the residuals should be normally and independently distributed (Tabachnick & Fidell, 2007).

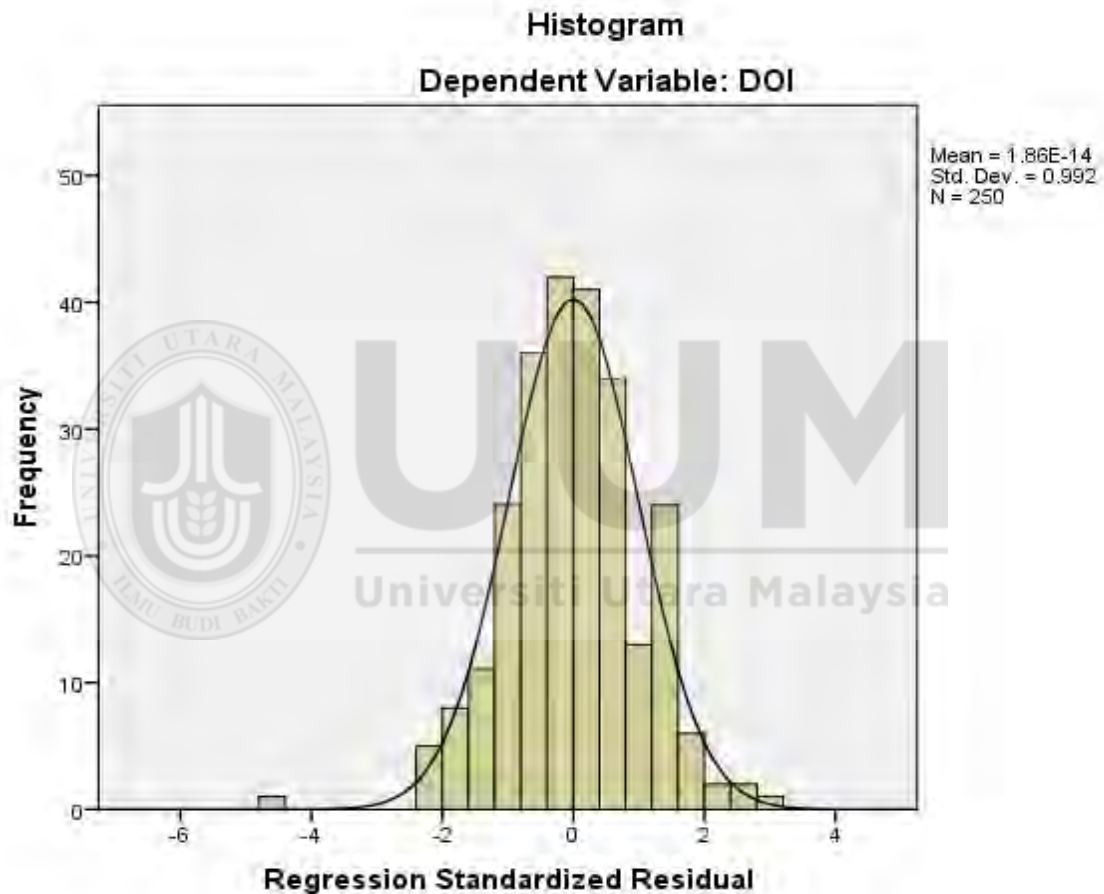


Figure 4.1  
Histogram and Normal Probability Plot

This study employed a graphical method to check for a normality of data. Field (2009) suggested that for a sample 200 or more, the graphical method for determining normality

should be considered rather than the value of the skewness and kurtosis. Figure 4.1 above presents the graphical normality probability plot and it indicates that the data for variable used in this study is normally distributed thus ensuring that normality assumptions are not violated.

#### **4.3.2 Multicollinearity Test**

Multicollinearity refers to the degree of correlation among the independent variables (Sekaran & Bougie, 2013). The major problem of multicollinearity is that when indicating significant relationship where in reality the relationship is not significant, and this increases the standard errors, which in turn render the coefficient statistically non-significant (Hair *et al.*, 2007; Tabachnick & Fidel, 2007). In this study variance inflated factor (VIF) was used to test multicollinearity (Diamantopoulos & Winklhofer, 2001), and high collinearity can be detected when some of the items weight are negative or have high variance inflation factor (VIF). Weights items were conducted using smart PLS. Hair *et al.*,(2014) suggested that the multicollinearity is a concern if variance inflated value (VIF) is higher than 10. Table 4.1 below depicts the VIF value for the constructs and items, and none shows value of above 10.0. Thus multicollinearity was not a problem in this study.

Table 4.1  
 Variance Inflation Factors (VIF)

CONSTRUCT / ITEMS	VIF
INT	8.297
EO	5.537
EU	5.376
SPP	8.752
DO1	3.052
DO2	2.202
DO3	2.645
DO4	3.024
EU1	3.104
EU10	2.724
EU11	3.092
EU12	3.574
EU2	2.670
EU3	3.409
EU4	2.999
EU5	3.054
EU6	3.280
EU7	3.353
EU8	3.681
EU9	3.321
SI	9.730
LP	8.024
PFX	7.592
PH	8.296
Proactive	5.025
Risk taker	
Innovative	4.879
	5.215

#### 4.4 Descriptive Statistics

The sample of this study comprised of manufacturing SMEs operating in the three industrial states (Selangor, Kuala Lumpur and Johor). A total of 511 survey questionnaires were distributed to these SMEs and 250 usable responses were received. The profile of respondents was analyzed on various characteristics of the sample.

Table 4.2 below described the years in business for the firms in the sample. 101 or 40.4% of firms were in the 21 to 50 years age categories and followed by 82 firms (32.8%) within 11 to 20 years in business, another 33 firms (13.2%) between 6 to 10 years in business, and 23 (9.2%) of firms in the category of 3 to 5 years age. Only 7 firms (2.8 %) were found to be in business for more than 50 years while 4 firms (1.6%) have been operating for less than 3 years.

Table 4.2  
Years in Business

Number of years	Frequency	Percent
Less than 3	4	1.6
3-5	23	9.2
6-10	33	13.2
11-20	82	32.8
21-50	101	40.4
Over 50	7	2.8
<b>Total</b>	<b>250</b>	<b>100</b>

The respondents were also asked on the years of experience in the exporting business. Table 4.3 shows that a majority of the firms (143 or 57.2%) are in the exporting business for 5 and less years, while 56 firms (22.4%) have been involved in international business between 11 to 20 years. Another 49 firms (19.6%) have been in international business between 6 to 10 years. Only 2 firms (.8%) were found to be involved in exporting business for more than 20 years, while 22 firms (8.8%) are only recently being in international business (less than a year).

Table 4.3  
Years in Exporting Business

Number of years	Frequency	Percent
Less than 1 year	22	8.8
1-2	51	20.4
3-5	70	28.0
6-10	49	19.6
11-20	56	22.4
Over 20	2	0.80
<b>Total</b>	<b>250</b>	<b>100</b>

Examination of the number of employees in Table 4.4 indicates that 51 or 20.4 percent of firms are SMEs categorized as micro firms which employ less than 5 employees while 71 (28.4 %) are small firms which have between 5 to less than 75 employees. However, majority of firms are medium sized representing 128 (51.2%) firms with 75 to 200 employees.

Table 4.4  
Number of Employees in the Firms

<b>Number of Employees</b>	<b>Frequency</b>	<b>Percent</b>
Less than 5	51	20.4
5- 49	43	17.2
50-74	28	11.2
75-99	13	5.2
100-200	115	46.0
<b>Total</b>	<b>250</b>	<b>100</b>

Table 4.5 shows the total yearly sales achieved by the sampled SMEs. 120 or 48 percent of the firms had a total yearly sales between RM10 million and RM50 million, 94 firms (37.6%) achieved yearly sales of between RM1 million and less than RM10 million, and only 5 firms (2.0%) had total yearly sales of between RM500, 000 and less than RM1 million. However 12 (4.8%) of sampled firms in the study are micro firms which reported an annual total sales of less than RM 300,000. The range of total sales among firms is broadly dispersed with a good representation of firms in small size, the RM 300,000 to RM14.999 million annual sales range.

Table 4.5  
Company's Total Sales Yearly

<b>Total Sales</b>	<b>Frequency</b>	<b>Percent</b>
Under RM300,000	12	4.8
RM300,000 – RM499,000	19	7.6
RM500,000 – RM999,999	5	2.0
RM1 million – RM4.999 million	47	18.8
RM5 million – RM9.999 million	47	18.8
RM10 million – 14.999 million	56	22.4
RM 15 million –50 million	64	25.6
<b>Total</b>	<b>250</b>	<b>100</b>

The respondents were queried on the number of countries of their exporting businesses. Table 4.6 shows that more than half (134 firms or 53.6%) confirmed of exporting their products and services to 4 or less countries while another 70 firms (28%) had dealings with 5 to 8 countries in their exporting businesses. Another 36 firms (14.4%) had exporting business with more than 12 countries, and only 10 firms (4%) mentioned in dealings with 9 to12 countries.

Table 4.6  
Number of Export Countries

<b>No. of countries</b>	<b>Frequency</b>	<b>Percent</b>
1 – 4	134	53.6
5 – 8	70	28.0
9 -12	10	4.0
Over 12 countries	36	14.4
<b>Total</b>	<b>250</b>	<b>100</b>

Table 4.7 provides statistics on percentage of foreign sales on total sales for the firms. It shows that only 66 or 26.4 percent of the firms attributed 50 percent and more of their earnings on foreign sales, another 87 (34.8%) of the firms earned between 11 to 24 percent, followed by 50 (20%) of firms earning less than 10 percent of foreign sales, and 47 (18.8%) of the firms earned between 25 to 49 percent of foreign sales. This shows that the vast majority of the sampled SMEs had poor performance of exporting with only 26.4 percent of firms having earned more than 50 percent of foreign sales.

Table 4.7  
Percent of Total Sales Attributable to Foreign Sales

<b>Percent of Total Sales</b>	<b>Frequency</b>	<b>Percent</b>
Less than 10%	50	20.0
11 – 24%	87	34.8
25 – 49%	47	18.8
50% and above	66	26.4
<b>Total</b>	<b>250</b>	<b>100</b>

On the international market entry strategies, 193 firms or 77.2 percent indicated that exporting is their main entry strategy, 50 firms (20%) were involved with joint ventures, another 6 or 2.4 percent of the firms had established a wholly owned subsidiary and only 1 (0.4%) had a licensing entry strategy (See Table 4.8).



Table 4.8  
International Market Entry Strategies

<b>Type</b>	<b>Frequency</b>	<b>Percent</b>
Exporting	193	77.2
Licensing	1	0.4
Joint venture	50	20.0
Wholly owned subsidiary	6	2.4
<b>Total</b>	<b>250</b>	<b>100</b>

The demographic profiles of top management or owner/managers were also captured in the questionnaires. They are the individuals targeted because they represented the entire view of the firms. Table 4.9 indicates that 115 or 46.0 percent of the respondents were in the age category of 35 to 44 years old and followed by the age category of 45 to 54 years old (62 or 24.8%) and another 58 (23.2%) respondents in the age category of 25 to 34 years. Interestingly, another 8 or 3.2 percent of the respondents are relatively young in the age category of 18 to 24 years.

Table 4.9  
Age of Respondents

<b>Age</b>	<b>Frequency</b>	<b>Percent</b>
18 – 24	8	3.2
25 – 34	58	23.2
35 – 44	115	46.0
45 – 54	62	24.8
55 and above	7	2.8
<b>Total</b>	<b>250</b>	<b>100</b>

In terms of gender, 210 or 84.0 percent of the respondents were males while another 40 (16.0%) were females (See Table 4.10).

Table 4.10  
Gender Distribution

<b>Gender</b>	<b>Frequency</b>	<b>Percent</b>
Male	210	84.0
Female	40	16.0
Total	250	100

On educational background, a significantly high percentage of the respondents achieved qualifications at the tertiary levels (See Table 4.11). A majority of respondents (128 or 51.2%) possessed a diploma while another 80 respondents (32%) have first degree qualifications. Twenty respondents or 8% of them even hold post degree qualifications with either a master or PHD. Only 22 (8.8%) respondents obtained either Sijil Pelajaran Malaysia (SPM) or Sijil Tinggi Persekolahan Malaysia (STPM) qualifications.

Table 4.11  
Education Level

<b>Level</b>	<b>Frequency</b>	<b>Percent</b>
SPM/STPM	22	8.8
Diploma	128	51.2
Bachelor	80	32.0
Master/ PhD	20	8.0
Total	250	100

#### 4.5 Descriptive Analysis of the Latent Constructs

Descriptive statistic is a numerical summary of data set, such as maximum, minimum, means, standard deviation and variance (Sekaran, 2003). These variables were measured using seven-point Likert type scales (See Appendix A). The descriptive statistics for the latent variables is shown in table 4.12 below.

Table 4.12  
Summary of Frequencies

Variables	N	Items	Mean	Std Dev
Risk taker	250	3	5.0970	1.22438
innovative	250	3	5.1093	1.23411
Proactive	250	3	5.0960	1.19706
<b>EO</b>	<b>250</b>	<b>9</b>	<b>5.1031</b>	<b>1.18232</b>
SI	250	5	5.1656	1.20705
Pfx	250	9	5.1524	1.20624
Lp	250	5	5.1501	1.23300
PH	250	4	5.1500	1.19500
<b>SPP</b>	<b>250</b>	<b>23</b>	<b>5.1555</b>	<b>1.18414</b>
<b>EU</b>	<b>250</b>	<b>12</b>	<b>5.1603</b>	<b>1.11441</b>
<b>INT</b>	<b>250</b>	<b>4</b>	<b>5.1820</b>	<b>1.13778</b>

The descriptive data for the items used in this study shows that the overall mean for the latent variables ranged from 5.1031 to 5.1820. This indicates that the respondents had the higher perceptions toward internationalization (5.1820) followed with environment uncertainty (5.1603), strategic planning practices (5.1555) and lowest mean is entrepreneurial orientation (5.1031). However, on a scale of seven points, the mean results of above five (5.0) indicate a relatively a high level of concerns on the variables of

study. This also shows that the respondents who are the exporting SMEs are of the opinion that internationalization would have an effect on their operations and businesses. This concurs well with the focus of this study.

#### **4.6 Assessment of PLS-SEM Path Model Results**

This study employed two-step processes to calculate and report the results of PLS-SEM path as suggested by Henseler (2010). PLS-SEM has its limitation, however, when there are limited participants and the data distribution is skewed, PLS is proven useful for structural equation modeling in applied research projects, such as in surveying top management of multinational corporations (Wong, 2011b), business strategy (Hulland & Richard, 1999) and marketing (Henseler, *et al.*, 2009).

The primary purpose of testing the measurement model is to assess and determine the reliability and validity of the proposed items and constructs in the model. This in line with the suggestion by Chin, (2000) that only the reliable and valid items and measures are to be used prior to the assessing the nature of correlation between the constructs or dimensions in the overall model. Following Chin's (2000) suggestion, all the possible correlations among the constructs and dimensions were drawn and then the PLS inner weighting option using the factorial scheme was set. By doing this step the PLS will ignore the direction of the arrows among constructs and only simply performed pair-wise correlations to establish inner weights. Then only the indicators with loading higher than

0.7 were compared in the saturated model (all relationships) and those in the hypothesized model.

To assure that each indicator shares more variance with the component score than with error variance when assessing the reliability of each indicator, it is postulated that a reflective latent variable should explain a substantial part of the variance (usually at least 50%) of each indicator (Shook, Ketchen, Hult, & Kacmar, 2004). According to Chin, (2000) the absolute correlations between a latent variable/construct and each of its indicators/manifest variables (i.e., the absolute standardized outer loadings) should be higher than 0.7 (roughly equal to the square root of 0.5). As Chin (2010) maintained that one can keep indicators with loading greater than at least 0.60 in the measurement model, only those indicators with loadings at least 0.70 were included. Although indicators with loadings less than 0.7 (one indicator at a time) were dropped, eliminating indicators with low loadings should be done carefully. Henseler *et al.* (2009) suggested that it makes sense to discard the indicator only if an indicator's reliability is low and if eliminating this indicator goes along with a substantial increase of composite reliability.

In addition to indicator reliability, composite reliability (CR) was used to assess the reliability of scales. Composite reliability is preferred over Cronbach's alpha (1951) not only because it offers a better estimate of variance shared by the respected indicators, but also it uses the item loadings obtained within the nomological network (Hair *et al.*, 1995). Furthermore, Cronbach's alpha does not assume the equivalency among the measures and assumes all indicators are equally weighted. Therefore, while alpha tends to be a lower

bound estimate of reliability, CR is a closer approximation under the assumption that the parameter estimates are accurate (Chin, 2000). Henseler *et al.* (2009) suggested that to show internal consistency of a measure, CR must not be lower than 0.6. These 2 steps processes are (1) the assessment model and (2) the assessment of a structural model (Henseler *et al.* 2009). Assessment of the measurement model would be based on the followings:

- Examination of individual item reliability,
- Ascertaining of internal consistency reliability,
- Ascertaining of convergent validity, and
- Ascertaining of discriminant validity.

While assessment of the structural model would be based on the following;

- Assessment of the significant path,
- Evaluation of the level of R- squared values, and
- Examination of moderating effect.

#### **4.7 Assessment of Measurement Model**

Assessment of measurement model is essential and absolutely necessary as it provides thorough testing for the reliability and validity of the scales employed to measure the latent constructs and their manifest variables (Loehlin, 1998). In this study the model estimation delivers the empirical measures of the relationship between the indicators and the constructs. The PLS-SEM algorithm Figure 4.2 below shows that all the constructs

scores are estimated to determine items reliability, internal consistency, convergent validity and discriminant validity.

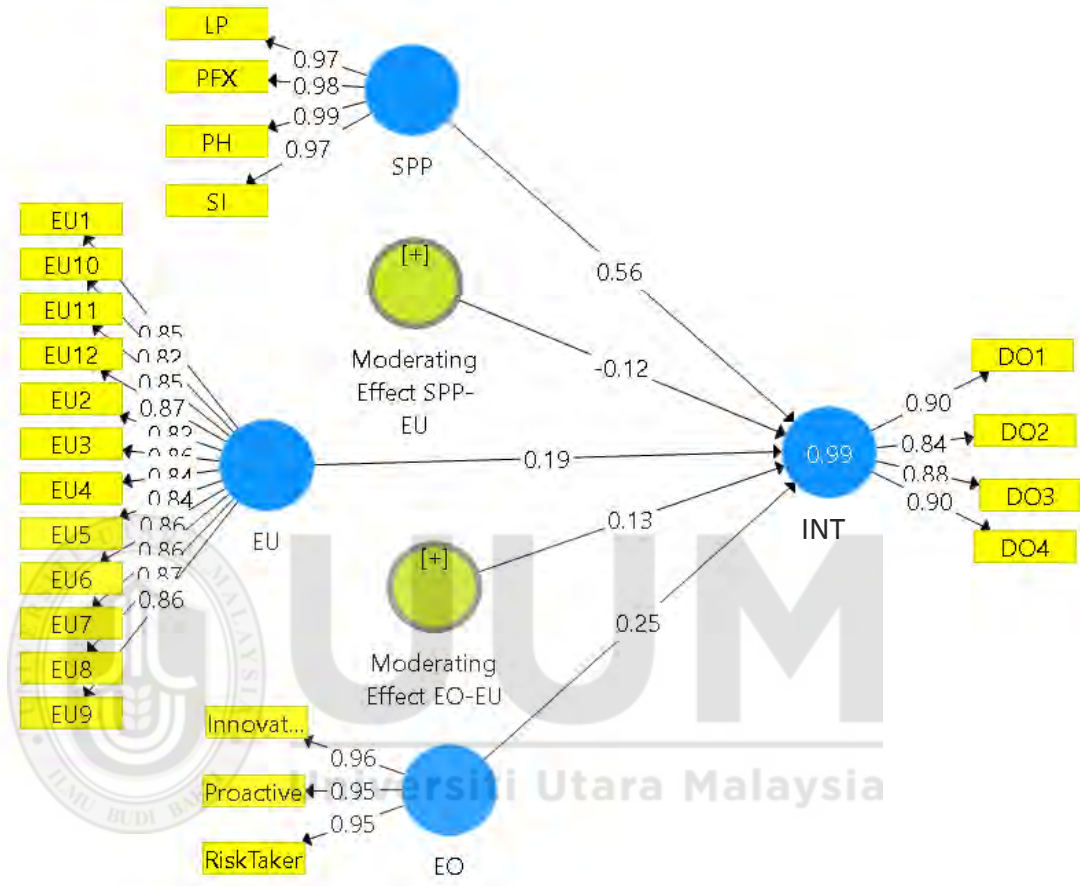


Figure 4.2  
Measurement Model

From the values in Figure 4.2 as above, the following preliminary observations can be made:

1. The number in the circle shows how much the variance of the latent variable is being explained by the other latent variable. In this study, the coefficient of determination ( $R^2$ ) is 0.99 for the INT endogenous latent variable. This means that

three latent variables (SPP, EO, and EU) substantially explained 99 per cent of the variance in INT.  $R^2$  of 0.75 is substantial, 0.50 is moderate, and 0.25 is weak,

2. The inner model suggests that SPP has the strongest effect on INT (0.56), followed by EO (0.25) and EU (0.19), and
3. The hypothesized path relationship between SPP, EO, EU and INT is statistically significantly ( $> 0.1$ ). However, only SPP (56%) is a moderately strong predictor of INT, while EO (25%) and EU (19%) are weak predictors of INT.

#### **4.7.1 Individual item reliability**

There was an examination of the outer loadings of each construct measure in Figure 4.2 in order to have assessment of individual items reliability (Hair *et al.*, 2012). Hair *et al.*, (2013) also suggested that the indicators with outer loadings between 0.40 and 0.70 are retained, while some items value below the threshold of 0.40 are deleted. All the 23 items were retained as they have loadings within the acceptable range of 0.82 to 0.99.

#### **4.7.2 Instrument validity and reliability**

The extent at which all items on particular scale are measuring the same concept is referred to as internal consistency reliability (Sun, Chou, Stacy, Ma, Unger, & Gallaher, (2007). The long established criterion for internal consistency is Cronbach's Alpha (Hair, Anderson, Tatham & William, 1998). However, due to limitation of Cronbach's alpha, composite reliability has been suggested as an appropriate measure of internal



consistency because it takes into account the different outer loadings of indicator variables, and PLS-SEM gives priority to the indicators according to their individual reliability (Peterson & kim, 2013). Composite reliability value of at least 0.70 is considered a good and satisfactory indicator of internal consistency (Hair *et al.*, 1998). This study employed composite reliability to ascertain internal consistency of the measures adapted. In addition, AVE scores of above 0.50 indicate strong convergent validity as this means that more than 50 per cent variation in a particular construct is explained by the stipulated indicators (Chin & Newsted, 1999). Table 4.13 below depicts the composite reliability and average variance extracted for the measurement model. All the values in the Table indicated that the model has demonstrated adequate reliability and validity.

Table 4.13

Composite Reliability (CR) and Average Variance Extracted (AVE)

<b>Constructs</b>	<b>AVE</b>	<b>CR</b>
INT	0.774	0.932
EO	0.909	0.968
EU	0.722	0.969
Moderating Effect EO-EU	1.000	1.000
Moderating Effect SPP-EU	1.000	1.000
SPP	0.957	0.989

## 4.8 Cross Loadings

Discriminant validity can be ascertained by comparing the indicator loading with cross loadings. According to cross loading criterion (Chin, 1998), the loading of each indicator is expected to be greater than all of its cross loadings. As shown in Table 4.14 below the value of the loading for each indicator was greater than all of its cross loading, and this means that the requirement of discriminant validity has been achieved.

Table 4.14  
Cross Loadings

Variables	INT	EO	EU	SPP
DO1	<b>0.902</b>	0.889	0.892	0.891
DO2	<b>0.843</b>	0.837	0.835	0.841
DO3	<b>0.877</b>	0.863	0.861	0.868
DO4	<b>0.896</b>	0.888	0.886	0.890
EU1	0.840	0.839	<b>0.849</b>	0.836
EU10	0.812	0.803	<b>0.815</b>	0.803
EU11	0.833	0.832	<b>0.848</b>	0.841
EU12	0.859	0.862	<b>0.867</b>	0.859
EU2	0.810	0.807	<b>0.822</b>	0.813
EU3	0.851	0.851	<b>0.862</b>	0.858
EU4	0.829	0.834	<b>0.843</b>	0.835
EU5	0.836	0.833	<b>0.844</b>	0.840
EU6	0.835	0.830	<b>0.859</b>	0.840
EU7	0.851	0.842	<b>0.856</b>	0.851
EU8	0.860	0.863	<b>0.871</b>	0.861
EU9	0.852	0.844	<b>0.861</b>	0.852
SI	0.963	0.962	0.962	<b>0.972</b>
LP	0.968	0.966	0.962	<b>0.973</b>
PFX	0.972	0.968	0.971	<b>0.982</b>
PH	0.979	0.975	0.979	<b>0.987</b>
Proactive	0.945	<b>0.954</b>	0.943	0.947
RiskTaker	0.934	<b>0.952</b>	0.935	0.938
Innovative	0.947	<b>0.956</b>	0.939	0.944

#### 4.9 Assessment of Structural Model

In this stage all latent variables need to be analyzed using the appropriate method that captures estimation of their scores. The strength of the structural model was then evaluated using a bootstrapping procedure with 500 re samples (Chin 1998). As noted by Hair *et al.*, (1998) a structural model is used to capture the linear regression effects of the endogenous construct upon one another. The structural model has the ability to specify the pattern of the relationship among the constructs (Leohlin, 1998).

The model was assessed using three criteria; 1) path coefficients ( $\beta$ ); 2) path significant value (p-value); and 3) variance explains ( $R^2$ ). The validation of the structural model was achieved using SmartPLS 2.0 M3. Following Chin (1998), bootstrap re-sampling method was employed to test the statistical significant of each path coefficient. Five hundred iterations using randomly selected sub samples were performed to estimate the theoretical model and hypothesized relationships. The criterion put forth by Coltman, Devinney, Midgley, and Venaik, (2008) suggested that for the structural model all paths should result in a t-statistics value greater than 2 and latent variable R-squares ( $R^2$ ) greater than 50 percent. Figure 4.3 below depicts the use of bootstrapping to assess the signifance of the path coeffieicients.

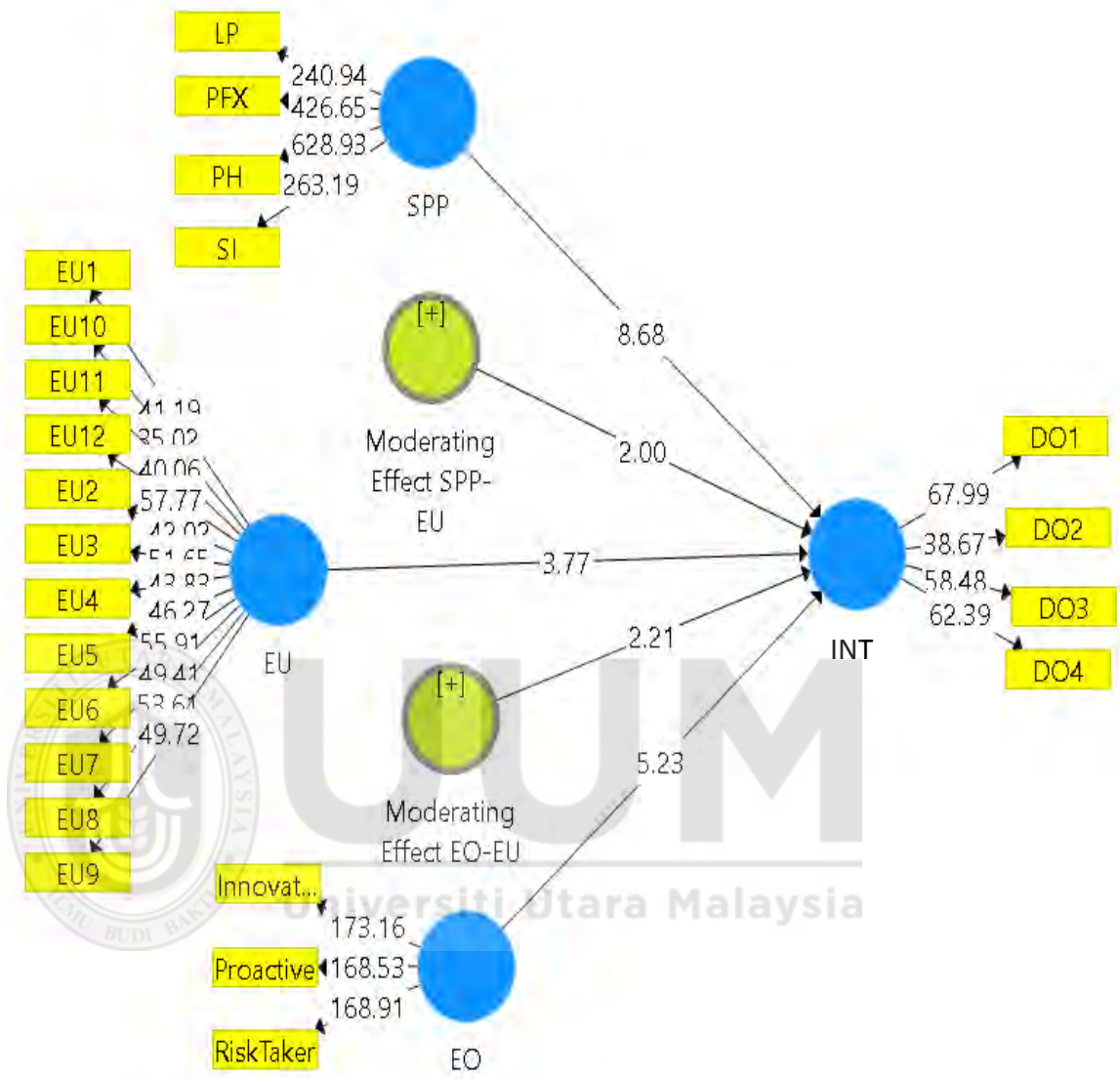


Figure 4.3

Full Structural Model

Table 4.15  
Results of Structural Model and Moderators

Hypotheses	Relationship	Original Sample (O)	Sample Mean (M)	Standard Error (STERR)	T Statistics ( O/STERR )	P Values	Decision
H1	SPP>INT	0.555	0.556	0.064	8.677***	0.000	Supported
H2	EO>INT	0.250	0.248	0.048	5.232***	0.000	Supported
H3	Moderating Effect SPP-EU->INT	-0.118	-0.117	0.059	2.000**	0.046	Supported
H4	Moderating Effect EO-EU->INT	0.127	0.126	0.057	2.209**	0.028	Supported

Note: Significance level; \*p<0.1, \*\*p<0.05; \*\*\*p< 0.01 (1-tailed test)

Table 4.15 summarises the results of the reflective measured constructs, SPP, EO, EU and INT. The T-values indicate the significant levels marked in asterisks. The relationship is significant at the 10 per cent level if the t-value is greater than 1.65, at the 5 per cent level if the value is greater than 1.96 and at the 1 per cent level if the value is greater than 2.58. P- Value which is less than <0.05 indicates that all the predictors are likely to be meaningful addition to the model because the changes in the predictors value (IV) are related to changes in the response variable (DV) and can reject all null hypotheses.

According to the T-value from this bootstrapping process;

1. Hypothesis 1 (H1) predicted that strategic planning practice (SPP) is significantly related to the internationalization of SMEs in Malaysia. The result shows that the

relationship is supported at 1 per cent significance level and P value is less than 0.05

2. Hypothesis 2 (H2) predicted that entrepreneurial orientation (EO) is significantly related to the internationalization of SMEs in Malaysia. The result shows that the relationship is supported at 1 percent significance level and P value is less than 0.05.
3. Hypothesis 3 (H3) predicted that environmental uncertainty moderates the relationship between strategic planning practices and internationalization of SMEs in Malaysia. The result shows that the relationship is supported at 5 percent significance level and P value is less than 0.05.
4. Hypothesis 4 (H4) predicted that environmental uncertainty moderates the relationship between entrepreneurial orientation and internationalization of SMEs in Malaysia. The result shows that the relationship is supported at 5 percent significance level and P value is less than 0.05.

4.10 Testing of Sub Hypotheses H1a, H1b, H1c, H1d.

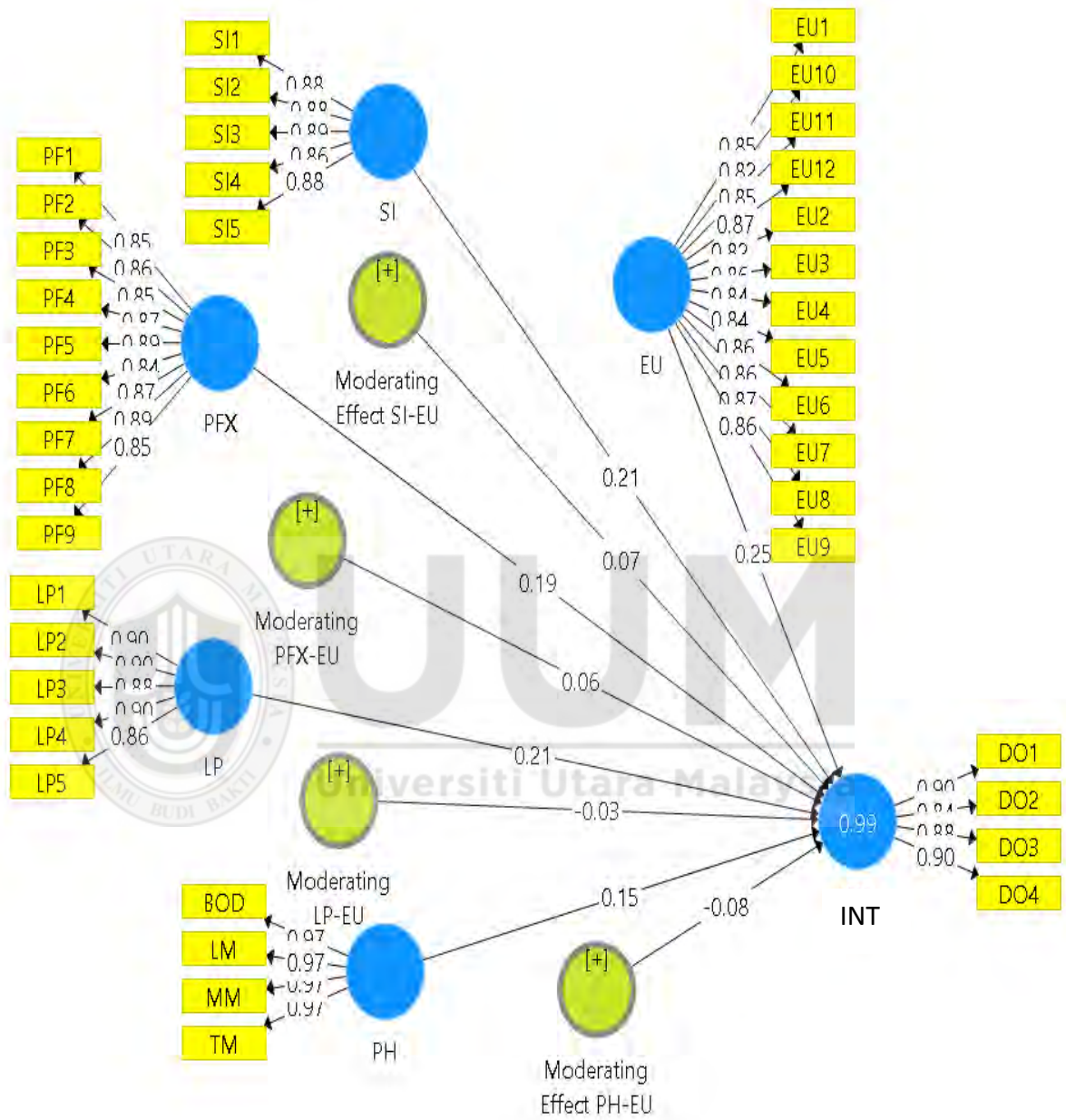


Figure 4.4

Coefficient Regression and loading of SI, PFX, LP, PH

Based on the Figure 4.4 above, all indicator loadings are ranged from 0.84 to 0.97 and within the acceptable range and all items are reliable. From these values, the following preliminary observations can be made;

1. The number in the circle shows how much the variance of the latent variable is being explained by the other latent variable. In this study, the coefficient of determination ( $R^2$ ) is 0.99 for the INT endogenous latent variable. This means that three latent variables (SI, PFX, LP, PH and EU) substantially explained 99 per cent of the variance in INT.  $R^2$  of 0.75 is substantial, 0.50 is moderate, and 0.25 is weak.
2. The model suggests that EU has the strongest effect on INT (0.25), followed by SI (0.21), LP (0.21), PFX (0.19) and the lowest is PH (0.15).
3. The hypothesized path relationship between SI, PFX, LP, PH, EU and INT, is statistically significantly ( $> 0.1$ ), however, individually all dimensions are weak predictors of INT.



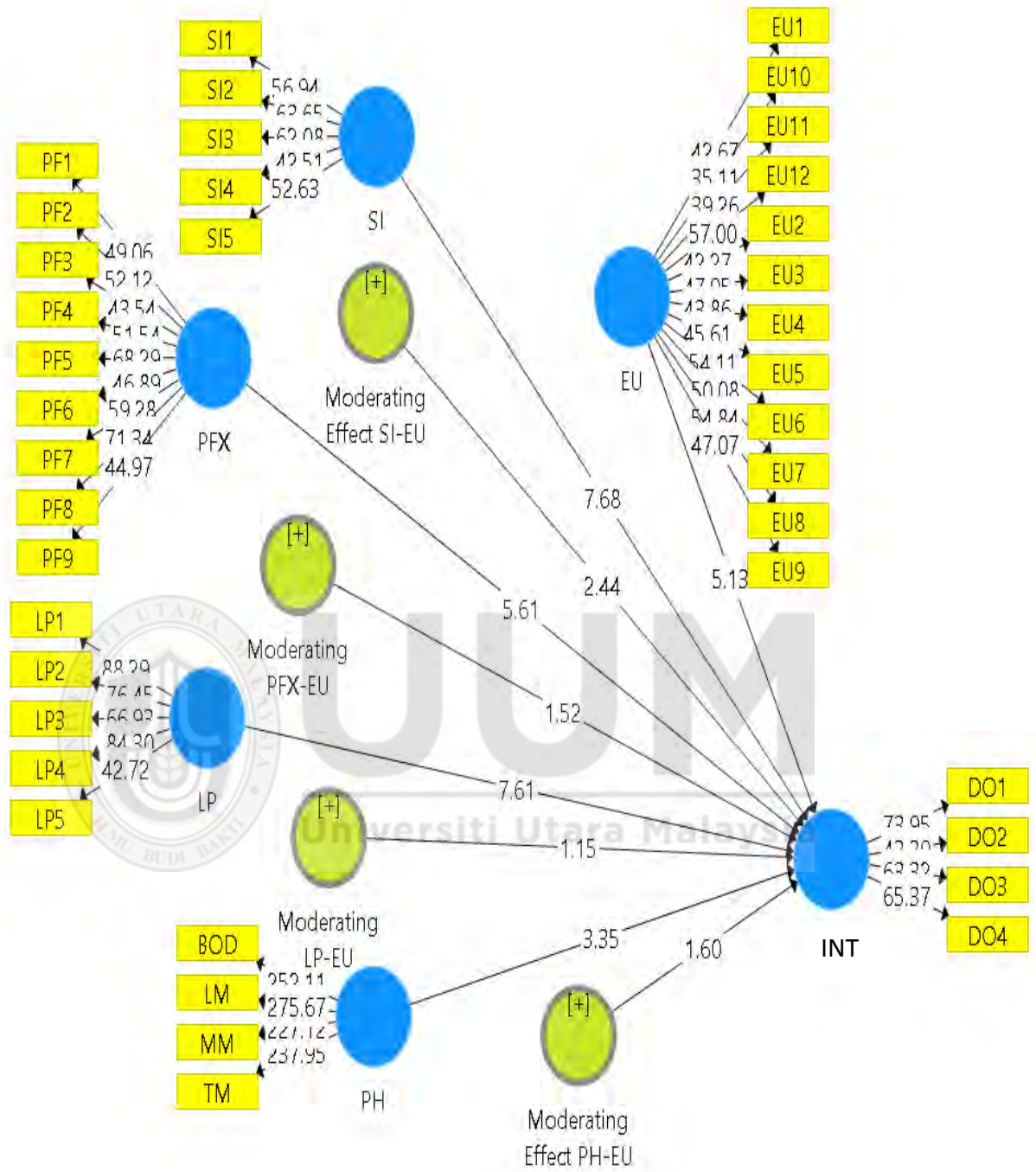


Figure 4.5

T-Value of SI, PFX, LP, PH.

Table 4.16

Result of Relationships between Individual Dimensions (IV) to INT (DV)

Hypotheses	Relationship	Original Sample (O)	Sample Mean (M)	Standard Error (STERR)	T Statistics ( O/STERR )	P Values	Decision
H1a	SI -> INT	0.213	0.213	0.028	7.675***	0.000	Supported
	Moderating Effect SI-EU -> INT	0.071	0.064	0.029	2.441**	0.015	Supported
H1b	PFX -> INT	0.190	0.191	0.034	5.612***	0.000	Supported
	Moderating PFX-EU -> INT	0.055	0.053	0.037	1.515	0.130	Not supported
H1c	LP -> INT	0.214	0.215	0.028	7.614***	0.000	Supported
	Moderating LP-EU -> INT	-0.034	-0.034	0.030	1.150	0.251	Not supported
H1d	PH -> INT	0.152	0.153	0.045	3.354***	0.001	support
	Moderating Effect PH-EU -> INT	-0.076	-0.066	0.047	1.602	0.110	Not supported

Note : Significant level; \*p<0.1 ; \*\*p<0.05; \*\*\*p< 0.01 (1-tailed test)

Table 4.16 summarises the results of the relationships between variables SI, PFX, LP, PH, EU and INT. The T- values indicate the significant levels marked in asterisks. The relationship is significance at the 10 per cent level if the t-value is greater than 1.65, at the 5 per cent level if the value is greater than 1.96 and at the 1 per cent level if the value is greater than 2.58. P- Value which is less than <0.05 indicate that all the predictors are likely to be meaningful addition to the model because the changes in the predictors value (IV) are related to changes in the response variable. Therefore;

1. Hypothesis 1a (H1a) predicted that environmental scanning intensity (SI) is significantly related with internationalization of SMEs in Malaysia. The result shows that the relationship is supported at 1 per cent significance level and P value is less than .05, and the result also shows that SI is supported at 5 per cent significance level and P value is less than 0.05. Environmental uncertainty was also tested as a moderator variable in this relationship, and the findings revealed that environmental uncertainty moderates the relationship between SI and internationalization of SMEs in Malaysia.
2. Hypothesis 1b (H1b) predicted that planning flexibility (PFX) is significantly related with internationalization (INT) of SMEs in Malaysia. The result shows that the relationship is supported at 1 percent significance level and P value is less than 0.05. Environmental uncertainty was also tested as a moderator variable in this relationship, and the findings revealed that environmental uncertainty moderates the relationship between PFX and INT.
3. Hypothesis 1c (H1c) predicted that locus of planning (LP) is significantly related with internationalization (INT) of SMEs in Malaysia. The result shows that the relationship is supported at 1 percent significance level and P value is less than 0.05. However, environmental uncertainty was also tested as a moderator variable in this relationship, and it was found not to moderate the relationship between LP and INT.
4. Hypothesis 1d (H1d) predicted that planning horizon (PH) is significantly related with internationalization (INT) of SMEs in Malaysia. The result shows that the

relationship is supported at 1 percent significance level and P value is less than 0.05. However, environmental uncertainty was also tested as a moderator variable in this relationship, and it was found not to moderate the relationship between PH and INT.

In evaluating SPP dimensions (SI, PFX, LP, and PH) individually, the results show that all the dimensions are related to the internationalization of SMEs in Malaysia, however, during the environmental uncertainty, only SI proved to be significance to the INT, while other three dimensions (PFX, LP, and PH) proved not to be significance with INT.

#### 4.11 Testing of sub Hypotheses H2a, H2b and H2c

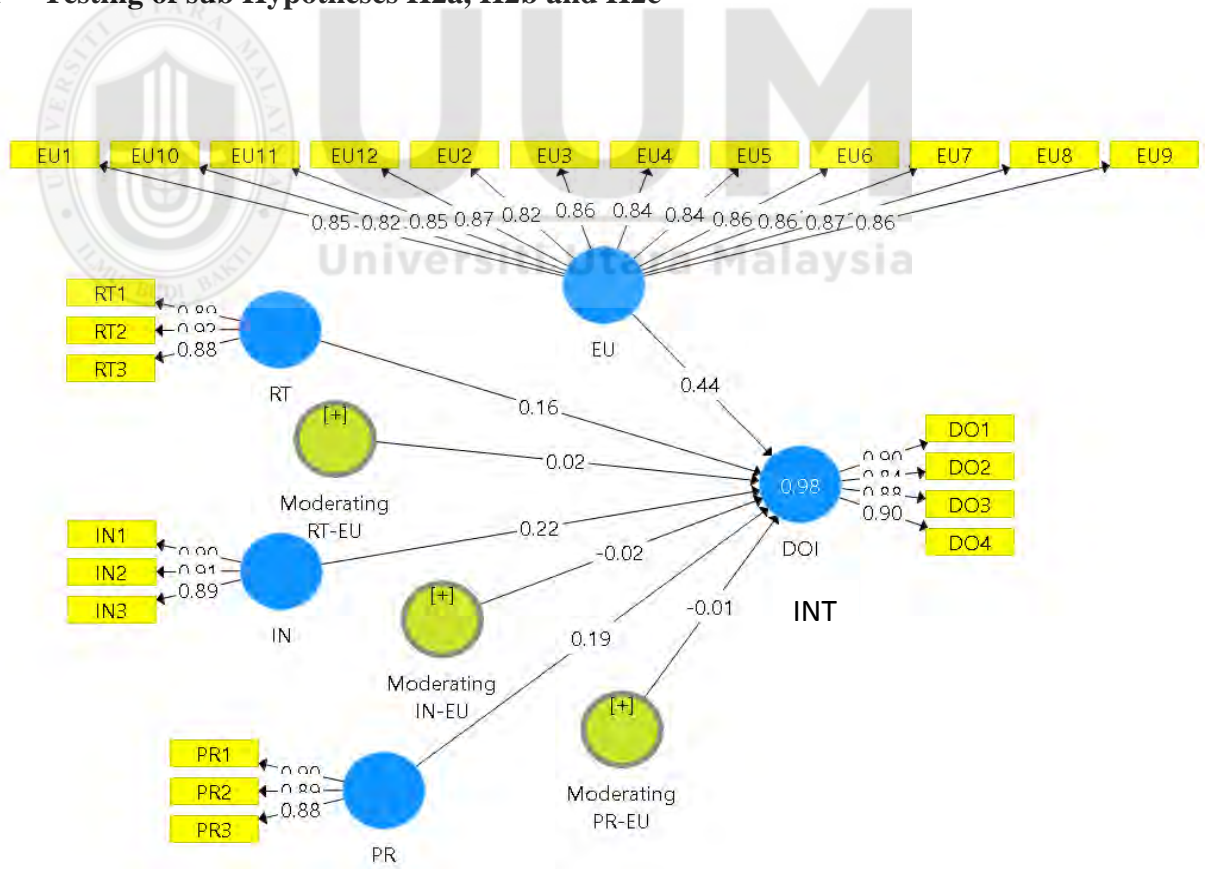


Figure 4.6

Coefficient Regression and loading of RT, INO, PRO

Based on Figure 4.6 above all the indicators loading ranged from 0.82 to 0.90 and within the acceptable range and all items are reliable. From these values the following preliminary observations can be made;

1. The number in the circle shows how much the variance of the latent variable is being explained by the other latent variable. In this study, the coefficient of determination ( $R^2$ ) is 0.98 for the INT endogenous latent variable. This means that three latent variables (RT, INO, PRO and EU) substantially explained 98 per cent of the variance in INT.  $R^2$  of 0.75 is substantial, 0.50 is moderate, and 0.25 is weak.
2. The model suggests that EU has the strongest effect on INT (0.44), followed by INO (0.22), PR (0.19), and the lowest is RT (0.16).
3. The hypothesized path relationships between RT, INO, PRO, EU and INT are statistically significant ( $> 0.1$ ); however, individually they are all weak predictors of INT.

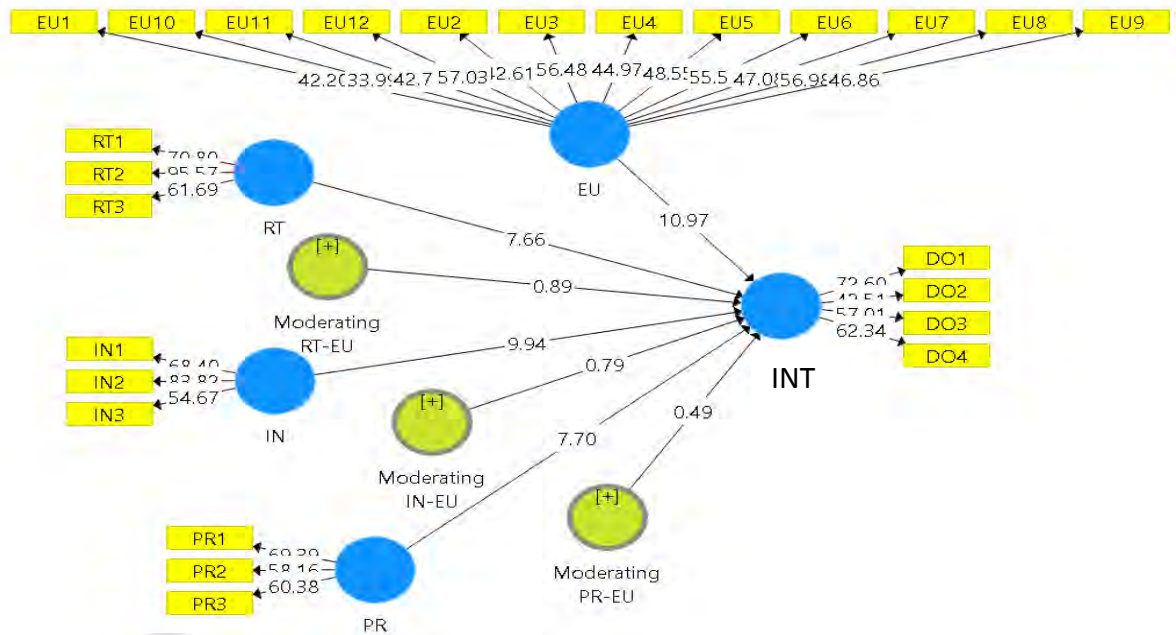


Figure. 4.7  
T Value for RT, INO and PRO

Table 4.17  
Results of Relationships between RT, INO, PRO and INT

Hypotheses	Relationship	Original Sample (O)	Sample Mean (M)	Standard Error (STERR)	T Statistics ( O/STERR )	P Value	Decision
H2a	RT -> INT	0.162	0.163	0.021	7.657***	0.000	Supported
	Moderating RT-EU -> INT	0.018	0.018	0.020	0.891	0.373	Not supported
H2b	IN -> INT	0.224	0.226	0.023	9.938***	0.000	Supported
	Moderating IN-EU -> INT	-0.021	-0.024	0.026	0.794	0.427	Not supported
H2c	PR -> INT	0.193	0.194	0.025	7.698***	0.000	Supported
	Moderating PR-EU -> INT	-0.012	-0.009	0.024	0.494	0.621	Not supported

Note: Significance level; \*p<0.1, \*\*p<0.05, \*\*\*p< 0.01 (1-tailed test)

Table 4.17 summarises the results of the relationship between variables RT, INO, PRO, EU and INT. The T- values indicate the significance levels marked in asterisks. The relationship is significance at the 10 per cent level if the t-value is greater than 1.65, at the 5 per cent level if the value is greater than 1.96 and at the 1 per cent level if the value is greater than 2.58. P- Value which is less than  $<0.05$  indicates that all the predictors are likely to be meaningful addition to the model because the changes in the predictors value (IV) are related to changes in the response variable. Therefore;

1. Hypothesis 2a (H2a) predicted that risk taking (RT) is significantly related to the internationalization (INT) of SMEs in Malaysia. The result shows that the relationship is supported at 1 per cent significance level and P value is less than 0.05. However environmental uncertainty was also tested as a moderator variable in this relationship, and the findings revealed it does not moderate the relationship between RT and INT.
2. Hypothesis 2b (H2b) predicted that innovativeness (IN) is significantly related with internationalization (INT) of SMEs in Malaysia. The result shows that the relationship is supported at 1 percent significance level and P value is less than 0.05. However, environmental uncertainty was also tested as a moderator variable in this relationship, and the findings revealed that it does not moderate the relationship between IN and INT.
3. Hypothesis 2c (H2c) predicted that proactiveness (PR) is significantly related with internationalization (INT) of SMEs in Malaysia. The result shows that the relationship is supported at 1 percent significance level and P value is less than

0.05. However, environmental uncertainty was also tested as a moderator variable in this relationship, and it was not found to moderate the relationship between PR and INT.

#### **4.12 Chapter Summary**

In this Chapter, the results of the statistical analysis were provided in order to test the proposed hypotheses. Various statistical analyses were conducted in order to validate the data and ensure fulfilment of the required criteria. PLS-SEM was specifically employed to assess the measurement model on individual item reliability, internal consistency reliability, convergent validity, and discriminant validity, and also to assess the structural model in the forms of significant path coefficient, evaluation of the level of R squared values, determination of effect size, predictive relevance moderating effect, and the evaluation through bootstrapping and blindfolding procedures. The discussion on findings as well as the conclusions and recommendations are in the following Chapter Five.



## CHAPTER 5

### DISCUSSION AND CONCLUSIONS

#### 5.1 Introduction

This chapter presents the findings from the data analyzed based on both descriptive and inferential statistics. Insights for the research questions, research objectives as well as hypotheses that emerged from the study are discussed. The chapter also set forth the contributions to the theory and implications on practice. Lastly the chapter addresses the limitations of study and some suggestions for future research directions.

#### 5.2 Discussion of Findings

The main intention of this study is to empirically test the relationships between strategic planning practices, entrepreneurial orientation, environmental uncertainty and the internationalization of Malaysia SME's. The constructs and dimensions of strategic planning practices and entrepreneurial orientation have been proposed for the integration especially, when it is in the competitive and dynamic environments. The constant change in the environmental forces results in uncertainty and risk, and thus requires firms to think strategically when undertaking risk for overseas venture. The impact of external environment as moderating variable is to explain the relationship in uncertainty environmental and the impact towards the internationalization of Malaysian SMEs. This

was an initiative to understand on what organizational capabilities does make firm involve in internationalization.

This study aimed to extend finding of prior research and particularly focus on Malaysian SMEs, and to answer the research questions established in this study. Specifically, the questions were; (1) Does strategic planning practices significantly related to the internationalization of SMEs in Malaysia? (2) Does entrepreneurial orientation significantly related to the internationalization of SMEs in Malaysia? (3) Does environmental uncertainty moderate the relationship between strategic planning practices and internationalization of SMEs in Malaysia? (4) Does environmental uncertainty moderate the relationship between entrepreneurial orientation and internationalization of SMEs in Malaysia?

The findings indicated that there are positive significant relationships among the constructs of strategic planning practices, entrepreneurial orientation and the internationalization in both benign and environmental uncertainties. In evaluating individually each dimension of strategic planning practices (SPP) and entrepreneurial orientation (EO), all were found to positively related to internationalization. However, indirectly, the relationships between these dimensions and internationalization were not supported when environmental uncertainty was included as a moderating variable, except for scanning intensity which found environmental uncertainty moderates its relationship significantly to internationalization.

### 5.2.1 Strategic Planning Practices and SMEs Internationalization.

Hypothesis 1 posited that strategic planning practices (SPP) is significantly related to the internationalization of SMEs in Malaysia. This study found that using the structural model assessment, SPP shows a positive and significant relationship towards internationalization ( $\beta$ ) =0.560,  $t=8.677$ ;  $p < 0.01$ ). The result implies that firms that are adopting strategic planning practices have positive relationship to the internationalization. This result support the importance of firm's organization to practices strategic planning practices to successfully venture into international markets and the finding is consistently with the previous findings of Barringer and Bluedorn (1999) and Whelen and Hunger (2003). In particular for resources based model, each organization is assumed to have different resources and capability uniqueness and as such these differences uniqueness are the main foundation of each firms to set their strategies to gain above average returns.

Over the long run the different performance for each firms will then very much depending of the ability to combine its uniqueness resources and capability rather than the industry itself. According to Rouse and Daellenbach (1999) the main activities of the strategic management practices are acquiring, process and managing the resources and capability which are valuable, rare, inimitable, and no substitutable and leverage it to gain superior performance and earn above average return and leading the market. Obrecht (2004) postulated that firm competencies include the knowledge based, resources based and strategic planning.

## **5.2.2 Entrepreneurial Orientations and SMEs Internationalization.**

Hypothesis 2 posited that the entrepreneurial orientation is related to the internationalization of SMEs in Malaysia. The results show that EO has significant positive relationship towards INT,  $(\beta) = 0.250$ ,  $t = 5.232$ ;  $p > 0.1$ . This finding supports previous finding by Lan and Wu (2010) that EO is related to the SME internationalization and a study conducted by Mizik and Jacobson (2003) observed that EO is an important factor for a firm seeking to attain above average return or attain competitive advantage. The study conducted by Senik *et al.*, (2014) in Malaysia identified organizational capabilities that triggered SMEs to internationalize and highly entrepreneurial attitudes were among the important factors for internationalization.

## **5.2.3 Environmental Uncertainty as Moderator to Strategic Planning Practices and SME internationalization.**

Hypothesis 3 posited that the environmental uncertainty moderates the relationship between strategic planning practices and internationalization of SMEs in Malaysia. The results found that environmental uncertainty moderates the relationship between strategic planning practices and internationalization. This finding indicates although it is important for a firm to have strengths in term of unique resources, skilled and experience employees and sound financial capability, R & D and ICT it is still subject to the external environmental conditions. The finding is consistent with observation by Senik *et al.*, (2010) who indicated that firm factors such as top managers characteristic, firm's human,

financial and reputation were the drivers for SMEs in Malaysia internationalize and this contributed to the resource based view which emphasizes the importance of internal capability such as firm's unique internal owned resources as important drivers in achieving competitive advantage (Alvarez & Busenitz, 2001; Barney, 1991;2001). The external factor does seem to have some influence to the strategic planning practices towards internationalization and the finding indicates that firms with strong internal capability and ability are affected by the changes of external environment. A study conducted by Senik *et al.*, (2010) observed that external environment was ranked fourth amongst five factors that most influence to the internationalization of SMEs in Malaysia.

#### **5.2.4 Environmental Uncertainty as Moderator to Entrepreneurial Orientation and SMEs Internationalization.**

Hypothesis 4 posited that the environmental uncertainty moderates the relationship between entrepreneurial orientation and internationalization of SMEs in Malaysia. This study found that environmental uncertainty shows a positive and significant relationship with entrepreneurial orientation and towards internationalization ( $\beta$ ) =0.127,  $t=2.209$ ;  $p < 0.05$ ). The result of this study show entrepreneurial orientation is important factor for firm to attain performance either in benign or uncertainty environment. Entrepreneurial firms will have more proactive, innovative than the conservative firms, which are normally passive and less innovative and less risk taking (Lumpkin & Dess, 1996). Organizational capabilities which include the entrepreneurial attitudes and flexibility of top managers characteristic are the organizational strength which provides sustainable

advantages to the firm (Senik *et al.*, 2014; Hamel & Prahalad, 1990). This finding also supported a study by Anderson (2000) which indicated that entrepreneurial factors triggered SME internationalization. SMEs that are adopting entrepreneurial orientation would effectively deal with dynamic export market where demand would be uncertain and shifted, and firm's special orientation and possess good fit or match between their strategy orientation and the external environment could achieve better result and performance (Boso, *et al.*, 2012; Wiklund & Shepherd, 2005; Lumpkin & Dess, 2001; Covin & Slevin, 1989). Thus the finding provides support that external environmental moderates the relationship between entrepreneurial orientation and SME internationalization.

#### **5.2.5 Scanning Intensity, Planning Flexibility, Locus of Planning and Planning Horizon to the SME Internationalization.**

1. Hypothesis 1a (H1a) predicted that environmental scanning intensity (SI) is significantly related with SME internationalization. The result shows that SI is supported at 5 per cent significant level and P value is less than  $<0.05$  and this means that scanning intensity is related with internationalization during uncertainty environment. This finding confirms the study conducted by Suh, Key and Munchus (2004) who observed and suggested that the managers of any organization should place more focus or interest of the environment scanning. Bornström, (2002) has also found out that firms with capability to deal and understand the actual business scenario and able to develop competencies to deal with it would have better result in business performance compared to those are

unable to do so. Environmental uncertainty was also found to moderate the relationship between scanning intensity and internationalization.

2. Hypothesis 1b (H1b) predicted that planning flexibility (PFX) is significantly related with SME internationalization. The result shows that the relationship is supported at 1 percent significant level and P value is less than 0.05. However, environmental uncertainty was added as a moderator variable, the findings revealed no moderating effect on the relationship. This may indicate that SMEs in this study do not perceive a need to change strategic plan quickly especially in volatile external environmental and they may have adopted a cautious, 'wait and see' posture in order to minimize the probability of making costly decision when faced with uncertainty. This finding is on contrary to the previous finding by Urban and Mothusiwa (2014) which argued that firms to have strategic planning flexibility to attain competitive advantage in any competitive environment.
3. Hypothesis 1c (H1c) predicted that locus of planning (LP) is significantly related with internationalization of SMEs. The result shows that the relationship is supported at 1 percent significant level and P value is less than  $<0.05$ . However, there is no effect on the relationship between LP and internationalization when environmental uncertainty was added as a moderating variable. This finding indicates that majority of Malaysia SMEs may not be practicing deep locus of planning and they tend to adopt a risk averse, conservative and bureaucratic organizations. This finding is contrary to the studies conducted by Antoncic and

Hisrich (2004), Barringer and Bluedorn (1999), Sathe's (1988) which suggested that a deep locus of planning in environmental uncertainty would facilitate a high level of performance.

4. Hypothesis 1d (H1d) predicted that planning horizon (PH) is significantly related with internationalization. The result shows that the relationship is supported at 1 percent significant level and P value is less than  $<0.05$ . However, when environmental uncertainty was added and tested on this relationship, it was found that no moderating effect occurs on the relationship between planning horizon and internationalization of SMEs.

In evaluating strategic planning practices dimensions (SI, PFX, LP, and PH) individually, the results show that all the dimensions are related to the internationalization of SMEs in Malaysia. However, environmental uncertainty was found to moderate only the SI and internationalization relationship, while on other three dimensions (PFX, LP, and PH) relationship with internationalization environmental uncertainty was not found to moderate their relationships.

#### **5.2.6 Risk Taking, Innovativeness and Pro-activeness to the SME Internationalization.**

1. Hypothesis 2a (H2a) predicted that risk taking is significantly related to SME internationalization. The result shows that the relationship is supported at 1 percent significant level and P value is less than 0.05. However, when environmental



uncertainty was added as a moderator variable in this relationship, it was not found to moderate the relationship between risk taking and internationalization of SMEs.

2. Hypothesis 2b (H2b) predicted that innovativeness (IN) is significantly related with SME internationalization. The result shows that the relationship is supported at 1 percent significant level and P value is less than 0.05. However, no moderating effect of environmental uncertainty was found on the relationship between innovativeness and SME internationalization.
3. Hypothesis 2c (H2c) predicted that proactiveness (PR) is significantly related with SME internationalization. The result shows that the relationship is supported at 1 percent significant level and P value is less than 0.05. However, when environmental uncertainty variable was added as a moderator this relationship, there was no moderating effect on the relationship between proactiveness and SME internationalization.

The findings indicated that entrepreneurial orientation as a multidimensional construct consisting risk taking, innovative and proactive can stand alone not only as a single construct but also distinctively on its relationship to internationalization and also in the uncertainty environment. According to Lumpkin and Dess, (1996) entrepreneurial orientation involves firm's activity in aligning its process, practices and managerial activities towards new market and it involve the strategic intention of top management's

actions (Smart & Conant, 1994). Therefore, this finding indicates that elements of risk taking, innovative and pro-activeness can stand alone in their relationships with a dependent variable (internationalization) and also when uncertainty environment was added into their relationships. Individual dimensions of entrepreneurial orientation may or may not have different implications on SME internationalization performance. Lumpkin and Dess (1996) argued that the environment and organizational factors may have some influences on the dimensions of entrepreneurial orientation.

### **5.3 Implications of Study**

#### **5.3.1 Theoretical Implications**

The direct relationship between independent variables (strategic planning practices and entrepreneurial orientation) and a dependent variable (internationalization) whether on unidimensional or multi-dimensional are positively and significantly supported. But for the moderating effect of environmental uncertainty, there are mixed findings. The relationships between strategic planning practices and entrepreneurial orientation on internationalization were found to be moderated by environmental uncertainty, but for their dimensions some were found to be moderated while were not. These findings add to the literature on both strategic management and entrepreneurship. In other words, this study confirmed that strategic planning practices and entrepreneurial orientation are important elements for organizational capabilities and for the SMEs to achieve competitive advantage or successfully venture to international market.

These studies also proved that resource based view which emphasizes the importance of the organization that has a unique resources capabilities and can survive, success and attain performance despite the fact that the external environmental is uncertain or volatile and it is important drives in achieving competitive advantage (Alvarez & Businetz, 2001; Barney, 1991; 2001). By testing the relationships and the results demonstrated, it shows the strategic planning practices and entrepreneurial orientation significant relationship to internationalization of Malaysian SME's and this study provides clear evidence and support that firms which has practicing the strategic planning and high entrepreneurial capabilities are capable in fostering firm capability to successfully venture into international market. The result of this study indicates that all organization that practices strategic planning practices could enhance the entrepreneurial behavior of firms by undertaking higher risk in investment, more innovative and proactive to the market demand and in particular in dynamic external environmental resulted in significant in internationalization.

This study also provides empirical support for the conceptual framework developed earlier by Zahra and George (2002) pertaining to the organizational factors that contribute to the international activities and or to the competitive advantage of firms when going international. They suggested that some organizational factors such as strategic planning practices and entrepreneurial orientation could influence the firms to successfully venture into international markets. Firms which are highly entrepreneurial orientated, knowledgeable, skills and with broad experience have been acknowledged to have better

ways and more effective and efficiently pursue growth and opportunities (Alvarez & Busenitz, 2001; Mockaitis, Vaiginienė & Giedraitis, 2006).

Within the Malaysia contexts, this study enhances an understanding of the role of strategic planning practices and entrepreneurial intensity in an organization that could improve the performance of SMEs when venturing into international market and in particular when the external environment is in an uncertain condition. There is also a paucity of similar study conducted in the Malaysian context, thus these findings contribute enormously to the local literature. The findings of this study also support the previous studies which posited that both strategic management elements and entrepreneurship are relevant to firm performance, create and pursuit of new venture opportunities and strategic renewal and focus on the enhancement of the internal resources within the organization. Moreover, the effective integration of firms strategic planning and resources would facilitate the entrepreneurial behaviour and creating more growth opportunities (Hitt, Freeman & Harrison, 2001). In addition a study by Barringer and Bluedorn (1999) has empirically proved that action which is integrated or combination between entrepreneurial orientation and strategic management activities could create synergy and thus creating added values for the positive outcomes and firm growth internationally. This study also gives evidence to support study conducted by Chelliah, *et al.*, (2010) who suggested that Malaysian SMEs to adopt the strategic management practices in market research, selecting of entry mode and market selection for internationalization activities. These practices could enhance Malaysian SMEs in the international business performance or greater height in internationalization. Thus, the

finding of this study shows that the SME internationalization related with the ability of firms improve its internal capability such as firm's unique resources, skilled and experienced employees and entrepreneur top manager that has good interpersonal skills, attitude and thus influence firm's internationalize and this in line with resource based view which emphasizes the internal capability and uniqueness resources.

### **5.3.2 Practical Implications**

From the practical implications, the results of this study offer several suggestions to the top management and particularly to the CEOs and owners of SMEs in Malaysia to enhance their organization capability and improve the business venture to international markets and achieve the competitive advantage. The findings indicate that the top management characteristic and capability of firm to practice strategic planning and entrepreneurial orientation may have a significant impact on the internationalization, and that these factors have proven to be significant factors for the firms to achieve competitive advantage. Thus most firms especially the SMEs should place more interest to building up their organizational capabilities and competencies which include the knowledge based, resource based, market knowledge and strategic planning knowledge (Obrecht, 2004).

The scanning activity is important for the firms that are competing locally or internationally as they are always aware about the aspects of changes in external market environment. They can meet these challenges by making adjustments to the external

business environmental through innovation in product and services. According Chakravarty (1997) the main duty of the top management is to cope up with the uncertainty external, and to mitigate risk and be the market leaders, they must be able conceptualize new strategies and share the responsibility throughout the organization and at all level and be able to leverage and enhance firms organization resources and capabilities as the real source of competitive advantage. Managers of firms engaging international business should always take into account the dynamic of external environment and to understand new trend of the industry, policy and regulation and must be flexible in action and response quickly to market change.

It is also suggested that firms especially SMEs must be proactive to the current business trend and practices, and be able to undertake risk, particularly in the dynamic external environment (i.e; fast paced, complex, globalization), otherwise these firms will no longer remain competitive and eventually lose the market share to the more dynamic and capable competitors. The entrepreneurial orientation synergized with strategic planning practices enable these firms to anticipate future changes of customer needs and wants, and from the information gathered these firms will always lead the way, proactively, and innovatively provide customers with new product and services.

Human resources department is becoming an important aspect of the firms' internationalization. Firms must invest more for human capital and to create value and ability for achieving competitive advantages. Therefore, the ability of human resources department to make a forecasting the future need of human capital talent and skills so as

to provide the necessary training to meet the market requirements is important. Besides having the good business model, these firms must have a strategy that is able to differentiate with others and gives it a more competitive advantage since a successful business venture has both a combination of good business model and good strategy.

Besides having a good management practices and entrepreneurial behavior, it is also important for the firms to keep the momentum of the entrepreneurial spirit alive in the organization. The danger of losing the entrepreneurial spirit and continuous ability to innovate is a major concern with most of the business owners. The growth of entrepreneurial firms may sometimes become a problem, in which growth require specialization of function and lead to communication problem among the departments. Because it involves many control system, this may affect the idea development and innovation, thus leading to complacency, which is contrary to the entrepreneurial firms. In order to keep these firms entrepreneurial alive and growth, they must continuously involve in the innovation creation process and instill the innovation friendly culture. They must also establish the strategic growth direction and strategically improve the knowledge and always come out with innovative idea for the commercialization process. Firms that adopt the ambidextrous organization is where the firms will be able to run effectively and innovatively as all the efforts will be coordinated efficiently among the organizations involved.

### 5.3.3 Policy Implication

On the policy implications of these findings, it shows that knowledge is an important asset for the firms and as such the government or policy maker should play more role in providing and developing the soft skill facilities and training to the SMEs. And this can be done by giving more grants and continuous training especially in strategic management and entrepreneurial aspects. The continuous or scheduled entrepreneurial audit, and corporate intensity measure to the SMEs may also be done on regular basis by the government agency to understand their level of entrepreneurship intensity and to provide the necessary input and thus the training to all levels of employment. SMEs with strong entrepreneurship intensity are able to steer the firms to become flexible, more innovative culturally and ready to take up more risky business ventures with the proper strategic input. The degree of entrepreneurial thinking clearly could affect the culture of firms, and these firms are more entrepreneurial oriented and willing to undertake project with higher calculated risk and return, and actively looking for opportunities and improve firm's weakness. This spirit of continuous improvement and forward looking could maintain firm's competitive advantage in uncertain external environment and the dynamic of entrepreneurial orientation clearly enhance the internationalization of SMEs. Therefore, it is important for the SMEs to cultivate the entrepreneurs' spirit and this can be done through proper training and involvement of top management of SMEs, policy makers and all the relevant stake holders.



The study of strategic management and entrepreneurial should be introduced to all tertiary education level regardless of their field of study. This approach could instill the entrepreneurial culture among the students and they are becoming more independent and are able to create business opportunities and become an entrepreneur or businessman as their main choice after completion their studies. Thus creating more SMEs in future and becoming a pillar for the nation economic growth and employment.

#### **5.4 Limitations and Directions for Future Research**

Several limitations of the study were identified. First, the organizational factor for this study is limited to strategic planning practices, entrepreneurial orientation and external environment factor. Other internal factors such as, top management capabilities, firm specific location and government incentives and support were not examined. And in particular for the entrepreneurial orientation the construct of competitiveness and autonomy were not examined as developed by Lumpkin and Dess (1996). This research only focused on the main dimensions that are commonly used by previous researchers (Wiklund, 1999; Wiklund & Shepherd, 2003) that are innovativeness, proactiveness, and risk taking. Therefore future research may include those dimensions into the research findings and widen the scope of investigation by incorporating those dimensions.

Secondly, the limitation of the this study is that samples were taken only from the SMEs and in particular the top management and head of department and with some of them not ready to share information for the reason only known to them. Future study should

include more personnel from various levels of the firms. Thirdly, all samples were taken from the manufacturing sector of the SMEs and as such the empirical result of this study should not be generalized across all the sectors because the competitive situation and the external environment are different. For the knowledge base industry the resources are very intangible and the competitive natures are different, and therefore future research should explore the services industry as well. Covin and Slevin, (1989) noticed that the gathering of data from SMEs are more challenging and difficult and suggested that more data available within the same industry or from other industries would improve the generalizability of the findings.

Thirdly, the empirical result may not be conclusive since the study was very much on the information provided by the top management only. The respondents may have been biased in viewing their organization and external environment, barrier and challenges. Other than that, different firms may have different government supports and incentives. Therefore, future research should include all those internal factor capabilities to obtain data and this is to encourage more confidence level and more comprehensive results in the future study.

Finally, longitudinal study may also be included for checking the cause effect relationship in the longer period as the cross section test will have typical limitation (Sekaran, 2006) and as the firms organizational firms are likely to change and progress over time. Thus it is appropriate to conduct longitudinal study and this study would be able to confirm and validate the result obtained from the cross sectional study.

## 5.5 Conclusions

This study sheds some light on an understanding on the relationship of strategic planning practices, entrepreneurial orientation and environmental uncertainty to the internationalization of SMEs in Malaysia. This study has proposed the framework that was modified or simplified from Zahra and George (2002) integrated model with the objective to empirically examine the relationship of strategic planning practices, entrepreneurial orientation to the internationalization of SMEs in Malaysian . From the finding obtained, the proposed framework was substantively supported and validated and all of the proposed constructs and dimensions were found positively correlated to the dependent variable. Thus, it can be concluded that strategic planning practices, entrepreneurial orientation are important factors to the internationalization of SMEs in Malaysia and thus to achieve a competitive advantage.

Other than that the synergy or combination of strategic planning practices and entrepreneurial orientation clearly create an extra benefit for the Malaysian SMEs as they complement and enhance the aspect of entrepreneurial spirit in which firms are more proactive and willing to undertake higher risk and return in business endeavor. Findings of this study extended the resource based view that the firm poses the unique internal resources and capabilities that can become firm's competitive advantage against its competitor and enhance its business performance. The basis for the competitive advantage of a firm lies primarily in the application of a bundle of valuable tangible and intangible resources at the firm (Wernerfelt, 1984; Rumelt & Lamb 1984; Penrose, 1959).

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## APPENDIX A: QUESTIONNAIRE

Dear Sir / madam,

You are invited to take part in a research about the degree of internationalization of Malaysian SMEs. The main purpose of this research is to identify factors that influence internationalization of Malaysian among SMEs in Malaysia. The information you provide will help us to understand the perceptions and attitudes of SMEs.

Participation in this survey is voluntary. All information provided is confidential and will be used for purposes of analysis, this research only.

If there are any questions or concerns, you may contact the researcher, Mohd. Faudzi Musa. Your cooperation in answering this questionnaire is greatly appreciated. We are very grateful for your assistance in this research.

Yours sincerely

.....  
MOHD. FAUDZI MUSA  
Matric no. 91548  
Doctor of Business Administration Candidate  
E-mail: mohdfaudzi2010@yahoo.com  
H/p 019-3835545

Dr Noor Azmi Hashim  
Supervisor  
E-mail: azmie@uum.edu.my

Prof. Dr. Mohamad Hanapi B Mohamad  
Co-Supervisor  
E-mail: mhm177@uum.edu.my

***Instruction:***

*Thank you for taking the time to answer the question in this survey. Please circle the number that best describes your thoughts or feelings. There is no right or wrong answers. Please do not write your name on the questionnaire. Your answers will be used only for statistical purposes and will remain strictly confidential.*



*Please read the instructions and question carefully*

**UUM**  
Universiti Utara Malaysia

## The Entrepreneurial Orientation Scale

The following statements are meant to identify the collective management style of your firm's key decision makers. Please indicate which response most clearly matches the management style of your business key managers by circling the closest number that best represents your views. Please indicate the degree of your agreement or disagreement with each statement by circling one of 7 alternatives after each statement.

1	2	3	4	5	6	7
Strongly Disagree	Disagree	Slightly Disagree	Neither Agree nor Disagree	Slightly Agree	Agree	Strongly Agree

1. In general, the top managers of my firm favour....

- |   |   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|---|
| a. High-risk project with chances of very high returns.   | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| b. A bold, aggressive posture in order to maximize the probability of exploiting potential when faced with uncertainty. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| c. Owing to the nature of the environment, bold, wide-ranging acts are necessary to achieve the firm's objectives.      | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

2. How many new lines of products or services has your firm marketed in the past 5 years?

- |   |   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|---|
| a. A strong emphasize on the marketing of tried and true products and services. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| b. Many new lines of products or services.                                      | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| c. Changes in product or service lines have been quite dramatic.                | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

3. In dealing with its competitors, my firm...

- |  |   |   |   |   |   |   |   |
|--|---|---|---|---|---|---|---|
| a. Typically initiates actions to which competitors then respond.                                | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| b. Is very often the first firm to introduce new products/services, operating technologies, etc. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| c. Typically adopts a very competitive, 'undo-the-competitors' posture.                          | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

### The Scanning Intensity Scale

The following statements are meant to identify the scanning devices used by your firm's key decision makers. Please indicate which response most clearly matches the frequency of scanning device by circling the closest number that the best represent your observation. Selecting a 1 indicates no usage, selecting a 7 indicates a very high degree of usage, and selecting a 4 indicated neutrally.

1	2	3	4	5	6	7
Not ever used	Not used	Slightly not used	Neither not used nor used	Slightly used	Used	Used frequently

1. Rate the extent to which the following scanning devices are used by your firm to gather information about its business environment.

- |  |   |   |   |   |   |   |   |
|--|---|---|---|---|---|---|---|
| a. Routine gathering of opinions.(Life style, social value of society)   | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| b. Explicit tracking of the politics (Interest rate, GDP, new laws, regulation, etc)                                     | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| c. Forecasting sales, customer preferences, technology, etc.   | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| d. Special marketing research studies.(New product, process, material)   | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| e. Gathering of information from suppliers and other channel members. (Competitor strategies ; pricing and distribution) | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

### The Planning Flexibility Scale

Please indicate how difficult it is for your firm to change its strategic plan to adjust to each of the following contingencies/possibilities. Selecting a 1 indicates a high degree of difficulty, selecting a 7 indicates no degree of difficulty, and selecting a 4 indicates neutrally.

1	2	3	4	5	6	7
Very Difficult	Difficult	Slightly Difficult	Neither Difficult nor Not Difficult	Slightly not Difficult	Not Difficult	Not at all Difficult

- |   |   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|---|
| a. The emergence of a new technology                | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| b. Shift in economic conditions                     | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| c. The market entry of new competition              | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| d. Changes in government regulations                | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| e. Shift in customer needs and preferences          | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| f. Modifications in suppliers strategies            | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| g. The emergence of an unexpected opportunity       | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| h. The emergence of an unexpected threat            | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| i. Political developments that affect your industry | 1 | 2 | 3 | 4 | 5 | 6 | 7 |



**Planning Horizon Scale**

Recall that a planning horizon is the length of the future time period that decision-makers consider in planning. At each of the following hierarchical level in your firm, what degree of emphasis is placed on managing business strategies and firm investment that have the following planning horizons?

1	2	3	4	5	6	7
Very little emphasis	Little emphasis	Slightly little emphasis	Neither not emphasis nor emphasis	Slightly emphasis	Emphasis	Considerable emphasis

a. Board of Director

Length of planning horizon of business strategy or firm investment

- |                      |   |   |   |   |   |   |   |
|----------------------|---|---|---|---|---|---|---|
| a. Less than 1 year  | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| b. 1 to 3 years      | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| c. 4 to 5 years      | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| d. More than 5 years | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

b. Top management

- |                      |   |   |   |   |   |   |   |
|----------------------|---|---|---|---|---|---|---|
| a. Less than 1 year  | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| b. 1 to 3 years      | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| c. 4 to 5 years      | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| d. More than 5 years | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

c. Middle management

- |                      |   |   |   |   |   |   |   |
|----------------------|---|---|---|---|---|---|---|
| a. Less than 1 year  | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| b. 1 to 3 years      | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| c. 4 to 5 years      | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| d. More than 5 years | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

c. Lower-level management

- |                      |   |   |   |   |   |   |   |
|----------------------|---|---|---|---|---|---|---|
| a. Less than 1 year  | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| b. 1 to 3 years      | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| c. 4 to 5 years      | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| d. More than 5 years | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

**THE LOCUS OF PLANNING SCALE**

**Distributed Decision Authority**

Please indicate how true or false the statements below are when identifying the distributed decision authority among managers reporting to top executives for your firm. Selecting a 1 indicates the statement is definitely false, selecting a 7 indicates the statement is definitely true and selecting a 4 indicates neutrally.

1	2	3	4	5	6	7
Definitely false	False	Slightly False	Neither False nor True	Slightly True	True	Definitely True

- |  |   |   |   |   |   |   |   |
|--|---|---|---|---|---|---|---|
| a. Can start major market activities without approval    | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| b. Can market to new customer segments without approval  | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| c. Need no approval to initiate new product development  | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| d. Can introduce new practices without approval          | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| e. Need no approval to develop new internal capabilities | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

**Participation in Decisions**

Please indicate how often managers in your company participate in decision-making. Selecting a 1 indicated that managers never participate in the decision for the statement, selecting a 7 indicates that managers always participate in the decision for the statement, and selecting a 4 indicate neutrality.

1	2	3	4	5	6	7
Never	Not participate	Slightly Not participate	Neither Never nor Always	Slightly participate	Participate	Always

The managers participate in decisions:

- |  |   |   |   |   |   |   |   |
|--|---|---|---|---|---|---|---|
| a. To change the firm's market position        | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| b. About moves into new customer segments      | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| c. About major product/service introduction    | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| d. About development of important capabilities | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| e. To adapt new policies and practices         | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

**The External Environment Scale**

The following statements pertain to the external environment affecting your firm. Please review each of the following statements and circle the item that approximates your response. Selecting a 1 indicates that you strongly disagree with the statement, selecting a 7 indicates that you strongly agree with the statement, and selecting a 4 indicate neutrality.

1	2	3	4	5	6	7
Strongly Disagree	Disagree	Slightly Disagree	Neither Agree nor Disagree	Slightly Agree	Agree	Strongly Agree

- a. The external environment our firm operates in has a high level of risk and uncertainty. 1 2 3 4 5 6 7
- b. The external environment poses serious threats to our firm’s survival and well-being. 1 2 3 4 5 6 7
- c. Our firm must deal with a wide range of external environment influences (e.g., competitive, political, social/cultural, or technological forces). 1 2 3 4 5 6 7
- d. Declining markets for products are a major challenge in our industry. 1 2 3 4 5 6 7
- e. Tough price competition is a major challenge in our industry 1 2 3 4 5 6 7
- f. Government interference is a major challenge in our industry.
- g. Our business environment causes a great deal of treat to the survival of our firm. 1 2 3 4 5 6 7
- h. The rate of product and service obsolescence in our industry is high 1 2 3 4 5 6 7
- i. In our firm, the modes of production and service change often and in many ways. 1 2 3 4 5 6 7
- j. Our firm must change its marketing practice frequently. 1 2 3 4 5 6 7
- k. In our industry, actions of competitors are unpredictable. 1 2 3 4 5 6 7
- l. In our industry, demand and customer tastes are unpredictable. 1 2 3 4 5 6 7

**Degree of Internationalization Scale**

Please respond to the statement below regarding how satisfied you are with your firm’s related to the following criteria:

1	2	3	4	5	6	7
Very Unsatisfied	Unsatisfied	Slightly Unsatisfied	Neither Unsatisfied nor Satisfied	Slightly Satisfied	Satisfied	Very Satisfied

- a. Sales growth rate 1 2 3 4 5 6 7
- b. Export profits 1 2 3 4 5 6 7
- c. Export market share 1 2 3 4 5 6 7
- d. Rate of new market entry 1 2 3 4 5 6 7
- e. New product development 1 2 3 4 5 6 7

**Variables Related to the Firm**

Please answer the following questions concerning your firm.

1. Please check the category that best describes your company's primary area of business:

<input type="checkbox"/>	Manufacturing
<input type="checkbox"/>	Services
<input type="checkbox"/>	Government
<input type="checkbox"/>	Other : Please specify type of business _____

2. Years in business:

<input type="checkbox"/>	0-2 year
<input type="checkbox"/>	3-5 year
<input type="checkbox"/>	6-10 year
<input type="checkbox"/>	11-20 year
<input type="checkbox"/>	21-50 year
<input type="checkbox"/>	Over 50 year

3. Years in exporting business:

<input type="checkbox"/>	Less than 1 year
<input type="checkbox"/>	1-2 year
<input type="checkbox"/>	6-10 year
<input type="checkbox"/>	11-20 year
<input type="checkbox"/>	Over 20 year

4. Approximately how many employees does your company have?

<input type="checkbox"/>	<5
<input type="checkbox"/>	6-49
<input type="checkbox"/>	50-74
<input type="checkbox"/>	75-99
<input type="checkbox"/>	100-200

5. Approximately what are the total sales of your organization?

<input type="checkbox"/>	Under RM 300,000
<input type="checkbox"/>	RM 300,001 – RM 499,000
<input type="checkbox"/>	RM500,000- RM999,999
<input type="checkbox"/>	RM1 million - RM4.99 million
<input type="checkbox"/>	RM5 million- RM9.99 million
<input type="checkbox"/>	RM10 million - RM14.99 million
<input type="checkbox"/>	RM 15 million- RM 50 million

6. Please tell us approximately how many different countries your firm exports to?

<input type="checkbox"/>	1-4 countries
<input type="checkbox"/>	5-8 countries
<input type="checkbox"/>	9-12 countries
<input type="checkbox"/>	Over 12 countries

7. Please estimate the percent of your company's total sales which are attributable to foreign sales.

<input type="checkbox"/>	Less than 10%
<input type="checkbox"/>	11-24%
<input type="checkbox"/>	25-49%
<input type="checkbox"/>	50-74%

8. Please indicate what other international market entry strategies your company has used or is currently using. Please check all that apply.

<input type="checkbox"/>	Exporting
<input type="checkbox"/>	Licensing
<input type="checkbox"/>	Joint venture
<input type="checkbox"/>	Wholly owned subsidiary



**Variables Related to Respondent**

Please answer the following information concerning yourself.

1. Age

<input type="checkbox"/>	18-24
<input type="checkbox"/>	25-34
<input type="checkbox"/>	35-44
<input type="checkbox"/>	45-54
<input type="checkbox"/>	55-64
<input type="checkbox"/>	Over 65

2. Gender

<input type="checkbox"/>	Male
<input type="checkbox"/>	Female

3. How many years you been involved in international business?

<input type="text"/>	years.
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4. How often do you travel to foreign markets?

<input type="checkbox"/>	Never
<input type="checkbox"/>	Seldom
<input type="checkbox"/>	Once a year
<input type="checkbox"/>	Once every other year
<input type="checkbox"/>	Twice a year
<input type="checkbox"/>	More than twice a year

5. What is the highest level of education that you have completed?

<input type="checkbox"/>	SPM /STPM
<input type="checkbox"/>	Diploma
<input type="checkbox"/>	Bachelor
<input type="checkbox"/>	Master / PHD