

# *Understanding Ethical and Other SMEs Internationalisation Determinants and its Impact on Business Performance: A Primary Attempt to Understand Malaysian SMEs Internationalisation*

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## **Abstract**

The research in hand attempts to investigate the different factors influencing SMEs' decision to internationalise in developing countries (such as Malaysia) including the impacts of ethical issues on the internationalisation decision process. The study also attempts to investigate the impact of internationalisation adoption on SMEs' business performance since the relationship remains vague. The study will deepen the understanding of the complex interrelationship between internationalisation determinants (that influence top management's decision to internationalise), and how such factors (internal and external) might affect SME's business performance. Based on the outcomes of such investigation and extensive exploratory study, an acceptable and comprehensive conceptual framework will be presented to investigate and understand the different factors influencing internationalisation adoption by Malaysian SMEs and its impact on companies' performance.

## **Keywords:**

Internationalisation; Business Performance; Ethical Issues; SMEs; Malaysia; Determinants; Conceptual Framework

## **1. Introduction:**

Although the research area of investigating factors influencing internationalisation of SMEs and the impacts on business performance has been much conducted in previous studies, the research conducted in a similar vein in developing countries is still scant. Results found from studies conducted in developing countries (such as Malaysia) is still vague (Hashim and Ahmad 2008). For instance, while the research conducted by Senik *et al.* (2010) found the determinant of internationalisation by Malaysian SMEs is highly significant to managers' networks, conversely study conducted by Ahmad (2014) found the most

critical factor influencing Malaysian manufacturing SMEs in West Malaysia is due to the market saturation. In contrast, Hashim and Ahmad (2008) found the desire to increase sales is the most influencing factor of internationalisation by Malaysian SMEs in the manufacturing sector. The various distinction of previous research findings is perhaps due to the scope of study and sample used. Therefore, there is a need to understand factors influencing Malaysian SMEs' internationalisation in more generalisable of the research findings in future research.

Several limitations have also been discovered from previous studies to understand internationalisation of Malaysian SMEs. For example, with regards to theoretical perspective, notably, there are extensive studies underpin on single theory in a study including the traditional stage model (e.g. Hashim and Ahmad 2008); network model (e.g. Senik *et al.*, 2011; Hashim, 2015); and international new venture (e.g. Ayob and Freixanet, 2014). However, this study has found previous works are scant regarding the usage of a more comprehensive approach combining multiple theories in a single study or so-called the integrative conceptual model to understand determinants of internationalisation by SMEs (e.g. Andersson and Evangelista, 2006; Senik *et al.*, 2010; Ahmad, 2014; Chelliah *et al.*, 2010; Bell *et al.*, 2003; Coviello and Martin, 1999). Also, this study has found that there is absent of previous studies deploy the institutional theory which relates to examining the role of ethics issues in decision making to internationalise. Several previous works found the level of ethics issues in foreign markets plays a vital role in influencing the decision to internationalise by business owners and managers (Asgary and Mitschow 2002; Campos *et al.*, 1999; Uhlenbruck *et al.*, 2006; Rodriguez *et al.*, 2005), yet the factor has never been investigated in Malaysia context. Moreover, regarding the methodological perspective; while several previous researchers such as Senik *et al.* (2010), Ahmad (2014) and Hashim (2015) conducted semi-structured interviews with government officials and related agencies such as the chamber of commerce to understand this phenomenon, Senik *et al.* (2010) suggest future research studies should deploy research samples from SME owners-managers as they could provide better information (Senik *et al.*, 2010).

Based on the above deficiencies, this research underpins the integrative conceptual model which combines five theoretical perspectives include stage model, network model, international new venture, foreign direct investment (FDI) and institutional theory to understand the factors influencing internationalisation adoption by Malaysian SMEs to achieve more generalisable findings in this research vein. This paper also deploys semi-structured interviews on Malaysian SMEs' owner-managers and government officials who directly involved in the international business.

The current research starts with a discussion of the background of internationalisation context, followed by a discussion on theories underpinning the study of SME internationalisation. Previous works regarding internationalisation adoption by SMEs and extant literature related to Malaysian SME internationalisation were then reviewed. This study then designed research approach to answer the research questions. Subsequently, semi-structured interviews of the 20 interviewees were then discussed in detail. Finally, the results and findings of the data analysis, which is leading to future research directions, are discussed.

## **2. Aims and objectives:**

The study seeks to investigate an appropriate framework in understanding factors influencing Malaysian SMEs' decision to internationalise by exploring extant literature, as well as collecting empirical data through semi-structured interviews. The research then continued exploring and purifying the factors influencing Malaysian SMEs to internationalise through empirical study. Subsequently, this paper will evaluate the impact of internationalisation adoption on Malaysia SMEs' business performance.

Thus, the objectives of the current study include: i) to explore extant literature on SME internationalisation and factors influencing the strategy; ii) to explore the ethical issues in international markets and its impact on Malaysian SMEs internationalisation decision; iii) to evaluate appropriate theories that could elucidate internationalisation of Malaysian SMEs; and iv) to explore different impacts of internationalisation strategy on Malaysian SMEs' business performance regarding financial and non-financial measures.

This current paper underlines five research questions as the following:

- i) What are the factors influencing Malaysian SMEs to internationalise?
- ii) Why some determinants of SME internationalisation are more critical than others?
- iii) Does ethics issues play essential roles in influencing Malaysian SMEs in decision making to internationalise?
- iv) How internationalisation strategy give impacts to Malaysian SMEs' business performance? and
- v) What is the most appropriate framework to understand SME internationalisation in Malaysia?

## **3. Literature Review:**

### ***3.1 SME internationalisation and theories underpinning:***

#### ***3.1.1 Internationalisation definition:***

Previous scholars have defined the term 'internationalisation' in several different ways. First, several scholars define internationalisation as the process of extending business into international markets through gaining knowledge and commitment (Johanson and Wiedersheim-Paul, 1975). For instance, Johanson and Wiedersheim-Paul (1975) proffer internationalisation is the process of firms engage in international marketplace from activities that require fewer resource commitments to higher commitments as the firms increasingly obtain foreign markets experience and knowledge. Second, several other scholars define internationalisation as "networks of business relationships in other countries through extension, penetration and integration" (Johanson and Vahlne, 1990). Within this definition, network

relationship is the main element in supporting the process of internationalisation. Third, Calof and Beamish (1995) explain internationalisation as “the adaptation of firms’ operations to international environments”, regardless of firm size, mode of internationalisation either inward or outward activities, time of firm going global etc. Fourth, in contrary, scholars from resource-based theory define internationalisation as “the process of mobilising, accumulating, and developing resource stocks for international activities” (Ruzzier *et al.*, 2006; Korsakiene and Tvaronaviciene, 2012). Fifth, on the economics point of views, Williamson (1975) and Dunning (1980) define internationalisation as “a foreign direct investment explained by rational economic analysis of internationalisation, ownership, and location advantages”. Lastly, scholars in international entrepreneurship field recently define internationalisation as “a combination of the main entrepreneurial characteristics include innovativeness, proactiveness, and risk-seeking behaviour which are expanded into international markets and is intended to create value in organisations” (McDougall and Oviatt, 2000).

Among these definitions of internationalisation, Calof and Beamish (1995) have defined the internationalisation appropriately as this current research intend to understand internationalisation in the following context; i) it covers various outward international activities since this study attempts to understand Malaysian SMEs’ internationalisation regarding direct exporting to customers, exporting through independent agent, foreign sales subsidiary, and foreign direct investment (FDI); ii) this study also attempts to understand factors of internationalisation in various perspectives including management, organisational, environmental, and ethical attribute; and iii) this study also attempts to understand the context of firm size which is precisely on SMEs.

The finding of a literature review conducted by this research reveals that most research studies from 1950<sup>th</sup> to 1990<sup>th</sup> focused on large and multinational companies. This finding is supported by McDougall and Oviatt (2000). For example, research studies related to economics-related theory including:

- i) OLI paradigm (Dunning, 1980);
- ii) Transaction Cost Theory (Buckley and Casson, 1985);
- iii) Classical Theory of Internationalisation (Mundell, 1957); and
- iv) New Trade Theory (Helpman, 1984)

extensively focussed on large companies. Moreover, the focus of studying large companies was also found in previous studies of stage/ gradual approach of internationalisation (e.g. Welch and Luostarinen, 1988).

However, the widespread interest in studying SME internationalisation extensively started in the 1990<sup>th</sup>. For instance, the research of small and new organisations doing international business has emerged in international entrepreneurship literature (see, for example, Giamartino and McDougall, 1993; Oviatt and McDougall, 1997; Oviatt and McDougall, 1999). Besides many national governments are striving for improved living standards among their people through the discovery of acquisition of new technology and entrepreneurship, in parallel academics are observing the internationalisation by SMEs through empirical studies (McDougall and Oviatt, 1999). Research in SME internationalisation covered various research areas, including:

- i) Barriers and impediments to internationalisation adoption faced by SMEs (e.g. Zaki, Edwards and El-Gohary, 2015; Hutchinson and Quinn 2011; Shaw and Darroch 2004; Fillis 2002);
- ii) Determinants of SMEs' internationalisation (e.g. Miocevic and Crnjak-karanovic, 2012; Evers *et al.*, 2008);
- iii) Channels and mode of entry into international markets (e.g. Plakoyiannaki *et al.*, 2014; El-Gohary, *et. al.*, 2013; Grandinetti and Mason, 2012);
- iv) The new phenomena of early internationalisation by companies after inception or so-called 'born global' (Andersson *et al.*, 2014; Andersson and Evangelista, 2006; Autio *et al.*, 2000; Kumar and Yakhlef, 2014; Kocak, 2009; Knight and Cavusgil, 2004; Zhou *et al.*, 2007);
- v) Process and pattern of SMEs' internationalisation (e.g. Kuivalainen *et al.*, 2012; Jones, 1999); and
- vi) Impacts of internationalisation on SMEs performance (e.g. Khalefa, *et. al.*, 2013; Lu and Beamish, 2001; Prange and Verdier, 2011; Hsu *et al.*, 2013).

### **3.1.2 Theories underpinning SME internationalisation**

In understanding SME internationalisation, various theoretical perspectives had been used. Four main approaches underpinning prior research studies includes:

- i) The Stage or Gradual Approach (e.g. Johanson and Wiedersheim-Paul 1975; Bilkey and Tesar 1977);
- ii) Network Approach (Johanson and Vahlne, 1977);
- iii) International New Venture (McDougall and Oviatt, 2000); and
- iv) Foreign Direct Investment theory such as Transaction Cost Model and OLI Paradigm (Dunning 1980; Dunning 1998; Buckley and Casson, 1998).

Recently, a stream of scholars who tend to integrate approaches in one single study of understanding SME internationalisation start to appear. For example, Coviello and McAuley (1999) and Coviello and Martin (1999). These theories are discussed in further details in the following sections.

First, the internationalisation process or stage theory was initially explored by Swedish researchers Johansson and Wiedersheim-Paul (1975) to understand the process of internationalisation in four stages including no export activity; export via an agent; foreign subsidiary; and foreign production. This process of internationalisation is also known as Uppsala Model (U-Model). The central theme of this theory is the knowledge and commitment gained gradually in the internationalisation process. The more information obtained on foreign markets, the more tendency of firms going into international markets. Nevertheless, the knowledge and experience are always hindered by 'psychic distance'.

'Psychic distance' is the impediments that hinder the flows of knowledge and experience from overseas markets to exporters such as language barriers, culture, political system, level of education, and level of industrial development (Johansson and Wiedersheim-Paul, 1975). The stage theory has always been underpinned in studies of SMEs' internationalisation. For example:

- i) Study on individual and firms' characteristics that influence behaviour of decision making in internationalisation of SMEs (Reid, 1981);
- ii) The moderating impacts of CEO attributes on the internationalisation-business performance relationship (Hsu *et al.*, 2013); and
- iii) The internationalisation adoption process by services SMEs (Coviello and Martin 1999; Altinay, 2007; La *et al.*, 2005).

However, this theory has been criticised due to the inability of explaining the recent phenomena of 'born global' or companies that internationalise soon after the firm's inception without following the gradual process (Oviatt and McDougall, 1994; Etemad, 2004).

Second, since SMEs are facing difficulties in getting information from overseas markets due to liability of smallness, newness and limited resources such as financial constraint, small number of employees, and limited technology, the network theory was introduced by Johanson and Vahlne (1990) to eliminate obstacles in getting foreign markets' information, as well as getting inclusiveness of relationship in overseas markets. This theory is concerned with network relationship that facilitates the process of SMEs' internationalisation (Johanson and Mattsson, 1987). Moreover, several scholars suggest network relationship as an essential factor explaining SMEs' internationalisation because it conveniently explains 'why' and 'how' firms extend into international markets (Johanson *et al.*, 1988). The reason of internationalisation by SMEs may include personal network relationship of owners-managers in overseas markets, as well as, inter-organisational network with overseas customers (Graham, 1999; Zhou *et al.*, 2007). Network relationship has been proven influences the process of internationalisation, particularly in SMEs internationalisation. For example, previous studies prove networks play essential roles in recognising international opportunities (Kontinen and Ojala 2011); establishing foreign business partners (Ellis, 2000; Freeman *et al.*, 2006).

Third, theories related to economics have been established to understand firms' internationalisation. The theories in this vein include i) transaction cost approach (e.g. Buckley and Casson, 1985; Williamson, 1975); ii) OLI paradigm (Dunning, 1988). While transaction cost theory concentrates on internalisation as a strategy to reduce international transaction cost, the OLI paradigm emphasises the advantages of ownership, location and internalisation as determinants of firms engaging in foreign markets and foreign production. Dunning (1988) argues that three elements must be present in the process of FDI by companies include organisational advantage, location advantage, and internalisation advantage. They (*ibid*) define internationalisation advantage is where firms achieve satisfaction of benefits as a result of investment in international markets. This approach differs from other theories regarding economics point of view. Hollenstein (2005) underpins OLI paradigm in studying the comparison of SME and large Swiss firms' internationalisation. The researcher (*ibid*) found that there is a different pattern of internationalisation between smaller and larger firms. The study found organisational advantages is the most important factor in enabling firms' investment strategy regardless of the size of the firms. Concerning location advantages, the study proves that location plays an important role in Swiss firms' internationalisation. However, the research posits that the higher degree of technology and other capabilities of firms, the higher degree of equity-based contracts firms will establish internationally.

Based on the discussion of the theories above, this current research stance on the integrative conceptual model as suggested by Coviello and McAuley (1999). The integration model is seen as crucial in understanding internationalisation adoption by Malaysian SMEs, which cannot be explained by only one single theory (Ahmad, 2014). In a similar view, Farrell *et al.* (1998) recommended a flexible theoretical approach to explore SMEs' internationalisation behaviour (c.f. Wright *et al.*, 2007). Moreover, Andersson *et al.* (2006) have also integrated stage and born global model to understand the pattern of internationalisation by Malaysian furniture companies. Furthermore, one theory cannot explain factors, which are explained by other theories. For instance, the technological advantage is explained in international entrepreneurship theory as an essential factor of internationalisation. However, the factor is not discussed in the stage theory. Thus, the integration of theories in one study is seen as complementary to each other in understanding SME internationalisation. Therefore, this study underpins the stage theory, network theory, FDI theory, international new venture theory, as well as, institution theory to understand internationalisation adoption by Malaysian SMEs, particularly on factors influencing Malaysian SMEs' internationalisation and the impacts of the strategy on business performance.

### **3.2 The internationalisation of Malaysian SMEs:**

#### **3.2.1 Background of Malaysian SME:**

While some European countries classify SMEs as the business category that owns not more than 250 employees (Muller *et al.*, 2014), similarly in Malaysia, SMEs is defined as firms that own not more than 200 employees and the yearly sales not more than MYR50 million (for manufacturing SMEs); and firms employ not more than 75 people and the annual sales not more than MYR20 million (for services and other sectors). Also, micro-firms is defined as firms that have not more than five employees, and annual sales of less than MYR300, 000 (SME Corporation Malaysia, 2014).

SME plays important roles in supporting Malaysia economy. Total Malaysian SMEs establishment was recorded as 907, 065 enterprises or equivalent to 98.5% out of total businesses (SME Corporation Malaysia, 2016). Out of this, 89.2% (809, 126 SMEs) are accounted as firms in services sector, 5.3% (47, 698 SMEs) in manufacturing, 4.3% (39, 158 SMEs) in construction, 1.1% (10, 218 SMEs) in agricultural and 0.1% (865 SMEs) are firms related to mining and quarrying sector. This report shows most of Malaysian SMEs involve in the services sector, followed by manufacturing and construction.

Regarding firm size, the majority of Malaysian SMEs are microenterprises which accounted 76.5% (693, 670 SMEs), followed by small-sized firms which accounted 21.2% (192, 783 SMEs) and the minority is medium-sized firms which accounted 2.3% (20, 612 SMEs). This figure depicts most Malaysian SMEs are still at a micro level which confronts the liability of smallness and lack of resources. Thus, the average GDP annual growth by SMEs from 2011-2015 was 6.7% versus the

overall economic growth of the country of 5.3% in 2015 (SME Corporation Malaysia Annual Report, 2016). Local market demands influence the SMEs' GDP.

Malaysian SMEs have contributed 17.6% share of total Malaysia exports in 2016, followed by 17.8% in the year of 2014, and 17.8% in 2013. This figure depicts the contribution of Malaysian SMEs upon exports value is still low on one hand, while the total number of SMEs registered in Malaysia is accounted as the majority of the total business population on the other hand. Conversely, total export share contributed by SMEs in the United States accounted for 97% of all exporters (Burpitt and Rondinelli, 2000). Various programs were initiated by the Malaysian Government to improve export participation among Malaysian SMEs including export acceleration program, Galakan Ekspert Bumiputera (Indigenous Export Encouragement Programs), as well as, free trade agreements (FTAs) establishments with Japan, Pakistan, India, New Zealand, Chile, Australia, China and Turkey. The most recently, Malaysia has joint Transpacific Partnership Agreement (TPPA) to ease participation of Malaysian SMEs in international markets.

### **3.2.2 Extant research on Malaysian SMEs internationalisation:**

Within this research context, academics have conducted several studies regarding Malaysian SMEs' internationalisation. For example:

- i) The study of driving factors of internationalisation (Ahmad, 2014; Senik *et al.*, 2010; Hashim and Ahmad, 2008; Chelliah *et al.*, 2010; Afsharghasemi *et al.*, 2013);
- ii) Barriers of Malaysian SMEs' internationalisation (Ahmad, 2014; Hashim, 2015);
- iii) Investigating theories explaining internationalisation of Malaysian SMEs (Abdullah and Zain, 2011);
- iv) Evaluating the impact of government's export promotion programs on internationalisation of Malaysian SMEs (Ayob and Freixanet, 2014);
- v) Investigating the sources of international knowledge by SMEs (Hashim and Ahmad, 2008);
- vi) Mode of internationalisation by Malaysian SMEs (Hashim and Ahmad, 2008);
- vii) Investigating the impact of internal and environmental advantages on international performance of Malaysian Halal food industry (Ismail and Kuivalainen, 2015);
- viii) Impact of internationalisation on Malaysian SMEs' business performance (Chelliah *et al.*, 2010); internationalisation of family-based SMEs in Malaysia (Yeoh, 2014);
- ix) Networking and the internationalisation of Malaysian SMEs (Senik *et al.*, 2011).

Notably, there is scant of previous studies underpinning economics-based theory; this includes studies conducted by Andersson *et al.* (2006), Senik *et al.* (2010), Ahmad (2013), and Chelliah *et al.* (2010a). Furthermore, there is no study investigating factors related to consideration of the level of ethics issues in international markets as an influential factor of internationalisation in previous studies



conducted in Malaysia context. Regarding the research methodology used, notably only Senik *et al.* (2011) investigate factors of SMEs internationalisation by deploying expert interview through Delphi techniques. The participants in the study were among government officials that involve in government supports to SMEs for internationalisation. However, the researcher (*ibid*) suggests that future research should interview SMEs' owners or managers in understanding factors influencing Malaysian SMEs internationalisation. Thus, this study attempts to understand factors influencing Malaysian SMEs internationalisation including the impact of ethical issues in influencing the internationalisation of Malaysian SMEs.

### 3.3 Determinants of SME Internationalisation:

The term 'determinants' had been interchangeably used with other terms in previous literature, including drivers; stimuli; antecedents; and factors influencing. This current study divides determinants of internationalisation into three different levels including

- i) Management/ individual characteristics;
- ii) Organisation characteristics; and
- iii) Environmental characteristics.

While management and organisation characteristics are variables related to internal factors of SMEs, environmental characteristics are the variables related to external factors of the firms including global economic, politics, weather, and national contexts (Aaby and Slater, 1989). Table 1 shows the distribution of the determinants of internationalisation adoption by SMEs discovered from previous articles.

**Table 1:** List of determinants of SMEs internationalisation found in prior studies

<b>N</b>	<b>Determinants</b>	<b>Scholars</b>	<b>Theories underpinning study</b>
<b>Internal: Management/ individual characteristics</b>			
1	Export intention/ global vision/ perceptions towards foreign market opportunities	(Ahmad, 2014)	INV
2	Entrepreneurial orientation	(Lan and Wu, 2010)	INV
3	Network relationship including social network and business network	(Coviello 2006; Crick and Jones 2000; Musteen <i>et al.</i> , 2013)	Network theory
4	Foreign market knowledge	(Musteen <i>et al.</i> , 2013; Johanson and Wiedersheim-Paul 1975; Oviatt and McDougall, 2005)	INV; Stage theory
5	Experience (experience abroad, industry experience)	(Hutchinson <i>et al.</i> , 2016)	Stage theory
6	International business management skills	(Goxe, 2010)	INV

7	Positive attitude towards risk	(Hutchinson <i>et al.</i> , 2016; Calof and Beamish 1995; Bilkey and Tesar, 1977)	Stage theory
8	Education level	(Johanson and Wiedersheim-Paul 1975; Suárez-Ortega and Álamo-Vera 2005)	Stage theory
9	Owners'/ managers' age	(Mcdougall <i>et al.</i> , 2003; Andersson <i>et al.</i> , 2004)	INV
10	Foreign language proficiency	(Johanson and Wiedersheim-Paul, 1975)	Stage theory
11	Positive perception about export barriers	(Hutchinson <i>et al.</i> , 2016)	Stage theory
<b>Internal: Organizational characteristics</b>			
1	Market orientation	(Afsharghasemi <i>et al.</i> , 2013; Knight and Cavusgi, 2004)	Stage theory/ Resource-based view
2	Firms' age	(Johanson and Vahlne 1977; Johanson and Vahlne, 1990)	Stage theory
3	Firms' size	(Reid, 1982; Calof, 1994; Cavusgil, 1984a)	Stage theory
4	Research and development (R&D)/ innovation	(Johansson and Vahlne 1977; 1990; Karadeniz and Gocer, 2007)	Stage theory
5	Technology (including production and communication technology)	(Oviatt and McDougall, 2005; Langseth <i>et al.</i> , 2016; Dunning, 1998; Hollenstein, 2005)	INV; OLI Paradigm
6	Products' quality and uniqueness	(Leonidou <i>et al.</i> , 2007; Chelliah <i>et al.</i> , 2010)	INV
7	Psychic distance (including cultural and language)	(Johanson and Wiedersheim-Paul, 1975)	Network theory
8	Reducing local market's risk by expanding to foreign markets	(Leonidou <i>et al.</i> , 2007)	INV
9	To increase efficiency/ better production capacity/ resource seeking	(Dunning, 1988; 1993)	OLI Paradigm

10	Desire to improve business performance such as profitability, annual turnover, and international performance.	(Leonidou <i>et al.</i> , 2007)	INV
11	Labour cost reduction	(Dunning, 1988; 1993)	OLI Paradigm
12	Human capital management capability/ specialized human resources	(Kumar and Yakhlef, 2014)	INV
13	Reputation and trust	(Kumar and Ali Yakhlef, 2014)	INV
14	Organisational learning intention	(Burpitt and Rondinelli, 2000)	INV
15	Competitive advantage (price leadership, cost control, products and marketing differentiation,)	(Suárez-Ortega and Álamo-Vera, 2005; Leonidou <i>et al.</i> , 2007)	INV; Stage theory
<b>External/ environmental level</b>			
1	Industry networking/ association	(Fletcher, 2001; Coviello and Munro, 1997)	Network theory
2	Potential industry	(Evers, 2010)	INV
3	Better rules and regulations in local and international markets (including better tax system, trading agreements and national export policy)	(Dunning, 1988; 1993)	OLI Paradigm
4	Financial funding opportunities (including bank and government-related financial institutions)	(Lindstrand and Lindbergh, 2011)	Network theory
5	Saturated domestic market	(Leonidou <i>et al.</i> , 2007)	INV
6	Focal suppliers/ foreign market trading house	(Johnsen, 2007)	Network theory
7	Government export assistance/ export promotion programmes by public organisations	(Kaynak and Kothari, 1984; Fletcher, 2001)	INV
8	Receive inquiry from international market/ unsolicited order from abroad	(Fletcher, 2001)	INV
9	Changes in global business conditions (e.g. economics, products, communication technology)	(Lim <i>et al.</i> , 1996)	OLI Paradigm
10	Competitor activities	(Lim <i>et al.</i> , 1996)	OLI Paradigm
11	Importer's specific investment	(Obadia, 2010)	OLI Paradigm
12	Importer role performance	(Obadia, 2010)	OLI Paradigm
13	Natural resource endowments (agriculture-based businesses)	(Aksoy and Kaynak, 1994)	OLI Paradigm
14	Weather and climatic advantages (agriculture-based businesses)	(Aksoy and Kaynak, 1994)	OLI Paradigm
15	Globalization (reduced tariffs barriers, effective transportation, and advance	(Graham, 1999)	IE

	communication technology).		
16	Foreign market attractiveness/ international market opportunity	(Dunning, 1988; 1993)	OLI Paradigm
17	Political stability	(Dunning, 1988; 1993)	OLI Paradigm
<b>Total number of variables</b>		<b>43</b>	

### 3.3.1 Ethical issues as a factor influencing SME internationalisation process:

Ethics is defined as “the discipline of how people deal with what is good and bad or right and wrong with generally accepted human duty and obligation” (Hurn, 2008). Hurn (*ibid*) posits ethics is about one’s actions, which in turn will affect other people. Ethics issues are not only discovered in the local market but also found in global marketplace including bribery, exploitative child labour, human rights violations and other problems (Asgary and Mitschow, 2002). Firms that envisage extending their market abroad or establishing foreign production should consider ethics issues to avoid making illegal payments to foreign officials, politicians or political parties for obtaining or retaining business. “The progressive industrialised countries (e.g. Canada) that have better rules, regulation, and standards (i.e. higher ethics) are seriously considered by businesses for investment. However, countries that lack predictable business rules and standards (e.g. some African countries) drive business away” (David, 1999; cited in Asgary and Mitschow, 2002).

A plethora of studies in international business ethics has been accounted for previous research studies. Majority research in this vein has been inspired from works undertaken by Richard T. De George (Enderle, 2015). For example i) research carried out to design the study of international business ethics in three different levels including individual, firm, and society by Enderle (2015); ii) suggestion of a code of ethics for multinational firms by Asgary and Mitschow (2002); iii) emphasising the essentials of ethics in international business within the study of international business courses by Hurn (2008); iv) international relations as a reference in conceptualising standard and acceptable ethics in international business studied by Iyer (2001); v) examination of the impacts of corruption on market entry (Uhlenbruck *et al.*, 2006); and vi) discovering the universal ethics issues discovered by Australian and Canadian firms (Chan, 1999). The researcher (*ibid*) found the most critical ethics issues discovered in overseas markets by Australian and Canadian firms is related to bribery, followed by cultural differences and involvement in political affairs and price practices.

Notably, this field of study is scant in SME internationalisation. The field is still on the stage of developing a comprehensive international ethics code since the nature of ethics is relatively differ in culture, religious faith, traditions, national and social identity (Hurn, 2008). Consequently, firms from developed countries face difficulties in establishing a foreign direct investment in countries with lower business rules and standards. However, there is normative agreement about the need for a standard, universal and generally acceptable human behaviour and common sense such as human rights (Hurn, 2008). Apart from investigating other determinants of SMEs’ internationalisation, this current study also attempts to investigate the impact

of the level of ethics attributes in foreign markets particularly the intensity of corruption on the decision making of internationalisation.

### **3.4 Internationalisation and SMEs Performance:**

While several studies found a significant positive impact of internationalisation adoption on firms' business performance (e.g. Johanson and Vahlne 1990; Dunning, 1980), others found none. For example, Suh and Kim (2014) found no significant positive relationship between internationalisation strategy and leading international SMEs in Korea. Similarly, Majocchi and Zucchella (2003) suggest that internationalisation adoption does not contribute business performance, rather firms' ability to access specific markets such as North America determines the performance of Italian SMEs. The next stage of this current research attempts to understand the relationship between internationalisation and business performance of Malaysian SMEs regarding financial and non-financial measures.

#### **3.4.1 Financial performance:**

There are eight financial business performance measures commonly found in the literature. First, return on assets (ROA) is a performance indicator used when an international firm involves in international investment and diversifies its operation in foreign countries (Hsu *et al.*, 2013; Pangarkar 2008). There are various reasons for using ROA as a performance indicator. For example, Hsu *et al.* (2013) deployed ROA as a dependent variable in testing the relationship between internationalisation and business performance. They (*ibid*) used ROA as a performance measure for two reasons: first, because their work related to internationalisation activities that are associated with economies of scope and scale, was more appropriate to deploy an accounting-based indicator. Second, because their work related to examining the effect of managers' attitude, they used the variable that is frequently measured by managers and analyst. ROA has proven to be a reliable performance indicator when considering the age of firms. For example, since most of born global firms engage in IT, electrics, and electronics (E&E) industries, those firms tend to invest in modern facilities and more substantial fixed assets. Hence, it is more appropriate to measure born global firms performance by using ROA (Pangarkar, 2008).

Second, other scholars argue that return on sales (ROS) should not be excluded from a performance measurement study. For example, Qian (2002) deployed ROS in the study of the impact of SMEs' internationalisation and product's diversification on profit performance of the United States SMEs. They (*ibid*) deployed ROS because it generally depicts monetary perspective rather than fixed assets. The evaluation of monetary performance usually needs for a longer period and carried at book values. ROS, however, is inextricably linked to different methods of accounting such as the way of calculating depreciation, specific countries' tax regulations, domestic inflation and foreign exchange fluctuations (Choi and Muller, 1984; c.f. Qian, 2002). Despite its inherent value, ROS has been criticised by several scholars on pragmatic grounds that managers are reluctant to disclose this sensitive information and it is often inconvenient to obtain reliable data (Musteen *et al.*, 2013; Yeoh, 2014).

Third, Yeoh (2014) and Westhead *et al.* (2004) proposed to use profitability growth and sales growth as indicators to measure firms' financial performance. Also, Zhou *et al.* (2007) proffered business performance should be measured within three years by financial indicators such as sales growth, profit growth, and export growth. Those financial performance measures were tested either objectively or subjectively by measuring the level of satisfaction of firm's managers and business owners. The usage of this financial aspect of measurement has been supported by prior researchers (c.f. Pangarkar 2008; Zhou *et al.*, 2007; Zahra *et al.*, 2000; Kuivalainen and Sundqvist, 2007). Even though subjective measures may lead to personal bias (Wall *et al.* 2004; c.f. Musteen *et al.*, 2013), Musteen *et al.*, (2013) argued that subjective measures is closely related to objective measures. Hence, subjective measures could provide a substitute whenever objectives measures data are not available.

Fourth, a limited number of previous studies deployed return on equity (ROE) as a performance indicator. The limited usage of ROE can be seen from the works undertaken by several researchers such as Westhead *et al.* (2004). They deployed ROE as one of six selected performance indicator variables in their study on profiles of exporting and superior-performing SMEs internationally. Furthermore, Zahra *et al.* (2000) deployed ROE because it was widely considered as a critical indicator of new venture performance by prior researchers (Chandler and Hanks, 1993; Zahra, 1996; Zahra *et al.*, 2000). Also, they (*ibid*) proffered ROE was used extensively to evaluate new venture performance by trade publications, industry experts and venture capitalist.

Fifth, another measure explaining financial performance is return on investment (ROI) (Chao and Kumar, 2010). One of the indicators showing firms have achieved a satisfactory annual sales performance is by observing the ROI and the level of market share (McDougall and Oviatt, 1996). This financial performance measure is found in work undertaken by Chao and Kumar (2010). However, they (*ibid*) found ROI did not show a high correlation to performance measurement in the study (Chao and Kumar, 2010).

Sixth, prior researchers such as Gregorio *et al.* (2009) have deployed the ratio of FSTS as a measure of business performance. This indicator is also widely used as a measure for the degree of internationalisation (DOI) (e.g. Andersson *et al.*, 2004; De Clercq *et al.*, 2005; Hsu *et al.*, 2013; R. G. Javalgi and Todd, 2011; Ketkar and Acs, 2013; Lu and Beamish, 2001; Martin and Papadopoulos, 2007; Pangarkar, 2008; Qian, 2002; Raymond *et al.*, 2014; Ruzzier *et al.*, 2006, 2007; Sullivan, 1994; Westhead *et al.*, 2004; and Yeoh, 2014).

Seventh, the last measure of financial performance is the percentage of foreign profit. This measure is used in work undertaken by Pangarkar (2008). The usage of this indicator is due to the complex set of goals carried by SMEs in the study.

#### **3.4.2 Non-financial performance**

Non-financial performance measures that have been discovered from extant literature include:

- i) Increase of production capacity and managerial efficiency;
- ii) Improve company's reputation and brand's name both in local and international markets;
- iii) Competitive of world's standard practices;
- iv) Ability to cope with the local and international business activities;
- v) Improvement of experience and knowledge as a result of international business activities; and
- vi) Longevity and sustainability in foreign markets.

Yeoh *et al.* (2014) recently deployed non-financial measures to examine the international outcomes of family businesses. The main reason for measuring company's performance with non-financial indicators is due to a high degree of reluctant from managers and business owners to reveal company's confidential information such as financial reports during data collection. As an alternative, they (*ibid*) deployed the improvement of production capacity and managerial efficiency as an indicator of business performance, as well as, other subjective measures. They discovered a significant positive impact of the international experience of the outside of family business CEOs and the improvement of production capacity and managerial efficiency.

Several prior researchers have examined the improvement of experience and knowledge as a result of international business activities, particularly research studies conducted in international entrepreneurship studies such as Zahra *et al.* (2000) and Fletcher and Harris (2012). The knowledge improvement includes international marketing knowledge, technical knowledge, as well as, internationalisation process know-how (Fletcher and Harris, 2012; Ibeh and Kasem, 2014; Zahra *et al.*, 2000). For example, Ibeh and Kasem (2014) studied the impact of internationalisation adoption on the firms' acquisition of marketing learning. They (*ibid*) found that firms' international business activities had positively influenced firms' acquisition of marketing knowledge. According to them (*ibid*), foreign market learning and knowledge acquisition trigger and enables economic development of international firms. Marketing knowledge is useful for managers who are unfamiliar with the condition of the foreign market and can improve aspects of their international marketing know-how. Furthermore, Zahra *et al.* (2000) found that internationalisation adoption had a significant positive impact on technological knowledge.

Goals and objectives of an internationalisation strategy undertaken by firm's managers and owners may differ, for example, some may be strategic while others are reactive. A common strategic objective is to penetrate foreign markets and diversify broader markets opportunities, as well as, strengthening resource seeking capability. Conversely, a reactive motive may include the need to serve key customers that have expanded abroad (Cavusgil *et al.*, 2011, pp. 50-51). Musteen *et al.* (2013) deployed the realisation of objectives as an indicator to measure first international venture performance.

While deploying profitability as a performance measure, Lu and Beamish (2006) also used longevity and sustainability in foreign markets as a dependent variable in the study of Japanese SMEs international joint ventures (IJV). They examined the impact of firm size and partners' host countries experience on the longevity and profitability with other partners from 41 countries. Consequently, they found that firm size is positively significant in influencing the sustainability of partnership in host countries; but a negative impact on profitability especially when partners own a minority of shares in the IJV. However, this study has only used two variables in business performance measurement and is challenged by prior researchers who proffer that performance is a complex multidimensional construct (e.g. Venkataraman and Ramanujam, 1986). Nevertheless, the indicator has proven to be relevant and can be applied in future research studies.

### **3.5 Summary of the literature review:**

The most suitable definition of internationalisation that may explain the current research context is the definition given by Calof and Beamish (1995) since this study intends to understand outward internationalisation including exporting, foreign subsidiaries, and foreign production. This research underpins the integrative conceptual model that combines five theoretical backgrounds explaining factors influencing internationalisation adoption by Malaysian SMEs. The theories include stage model; network model, international new venture theory; FDI theory, and institutional theory. The integration of these theories in a single study would give a comprehensive view to understand factors of internationalisation regarding management, organisation, environmental and ethics attributes as proposed by Coviello and Martin (1999) and Coviello and McAuley (1999).

Although Malaysian SMEs accounted for 98.5% of the total business population, the number of SME involve in international markets is still low. While Malaysian SME contributed only 17.6% share of total Malaysia exports in 2016, SMEs in the United States have contributed 97% of all exporters. The report triggers more research in this area of improving participation of Malaysian SMEs in international business is highly in demand. Furthermore, findings of prior research studies are still vague, and several limitations have been discovered including i) the absence of empirical works on examining the roles of ethics issues on SMEs' internationalisation process; ii) the scant of prior study evaluating economics-based variables in determining Malaysian SMEs' internationalisation, and iii) need for diversifying methods of data collection as suggested by Senik *et al.* (2011).

## **4. Methodology:**

### **4.1 Sampling and data collection:**

The research integrates both secondary and primary data to develop a comprehensive conceptual framework for Malaysian SMEs' internationalisation. It first undertakes an in-depth literature review by systematically stratifying previous research studies in the field. The literature was stratified according to themes include:



- i) Theories underpinning previous studies that focus on determinants of internationalisation adoption by SMEs;
- ii) Different size of companies involved in international trade activities from small to large firms;
- iii) Different countries of investigation including developed and developing countries;
- iv) Factors of internationalisation in terms of internal and external factors (e.g. managerial, organisation and environmental level) and;
- v) Business performance (including financial and non-financial performance).

These 'groupings' were then critically compared and contrasted as a means of identifying commonalities, differences and gaps in contemporary knowledge. The culmination of work undertaken then guided the second phase of the research, which was concerned with identifying the different factors influencing Malaysian SMEs internationalisation.

The researchers have subsequently conducted semi-structured interviews to purify the findings in the extant literature. Twenty Malaysian experts involved in international business activities were interviewed during this purification phase. The sample of SME owners and government officials was selected through the governmental organisation's website, which involves in international trade activities known as Malaysia External Trade Development Corporation (MATRADE). The companies included in the study were already internationalised. Such SMEs had Malaysian ownership, and all of them were private companies. There was no focus on a particular business sector and industry since this study aims to achieve generalisable findings that appropriate to explain the common factors influencing firms' internationalisation across all SMEs sectors and industries. Moreover, the government officials were selected from those who have experienced in organising international trade missions, international Business-to-Business (B2B) arrangements, and who were involved in international trade exhibitions such as trade commissioners. Initially, participants were contacted by phone to identify the right person to be interviewed and to acquire consent from the research participants.

The researchers' deployed semi-structured interview as this approach gives in-depth information on the determinants of Malaysian SMEs internationalisation, particularly, from the experts' point of views. The researchers conducted a face-to-face interview and phone interview. All interviews were recorded via voice recorder and subsequently were transcribed into written materials. The complete transcription was then shared with interviewees to validate the authenticity. The data were then analysed manually. The questions used in the semi-structured interviews cover the following topics:

- i) A demographic profile of the SMEs and the participants;
- ii) Factors influencing internationalisation covering management, organisation, and environmental characteristics;
- iii) Ten most important factors that influenced firms to internationalise according to priority in sequent;
- iv) Impact of internationalisation on business performance after involved in international business.

## **4.2 Data analysis:**

The initial step was to summarise for each interview to “allow for the unique pattern of each case emerge” (Eisenhardt, 2002; cited in Battisti *et al.*, 2014) and to capture the diversity of SME and interviewee experiences on the process of internationalisation adoption. The next step was searching for overall patterns across the interviews. These concepts allowed the researchers to analyse the international business patterns of SME in the entire samples.

## **4.3 Participants:**

Twenty participants were interviewed in the study. Out of twenty participants, 13 of the firms are small enterprises, which employ 5 to 75 employees (SME Corporation Malaysia, 2017), four firms are medium enterprises that employ 76 to 200 employees, followed by three officials from Malaysia External Trade Development Corporation (MATRADE). The officials are two Malaysian trade commissioners who are based in foreign countries, and one head of the department of MATRADE. Thirteen firms are exporting goods, and four companies involve in export services to foreign markets. While nine companies have been established less than five years, eight other companies have been established more than five years. While ten firms deploy direct export strategies, five firms are found engage in foreign subsidiaries (including joint venture and franchising), and two firms have had foreign productions.

## **5. Findings and discussion:**

From the literature review, 47 determinants of internationalisation were defined and then classified into three groups, which are:

- i) Individual factors;
- ii) Firm factors; and
- iii) Environmental factors.

These findings are supported by Martineau and Pastoriza (2016) in their literature reviews of SMEs internationalisation. Also, the ethical issues related factor is a potential emerging factor highlighted by the SMEs owner in decision making to internationalise. However, it has never been tested empirically in prior related research studies (for example research studies conducted by Reid, 1981; 1981; Morgan and Katsikeas, 1997). Table 2 shows the summary of results from the data analysis regarding essential factors influencing firms' internationalisation; some of these critical variables will now be discussed in further detail.

### **5.1 Management/ individual characteristics:**

Out of total 19 variables related to environmental characteristics, 13 factors were found having a consensus of participants more than 70 per cent. The most three tops essential determinants concerning organisation characteristics are: i) entrepreneurial orientation (95% participants); ii) foreign market knowledge (95% participants); and iii) positive attitudes towards risks (95% participants).

**Table 2: Determinants of internationalisation for Malaysian SMEs**

<b>N</b>	<b>Determinants of Malaysian SMEs Internationalisations</b>	<b>No. of participants</b>	<b>Percentage of participants consensus</b>	<b>Remarks</b>
<i>Management/ individual characteristics</i>				
1.	Export intention/ global vision	18	90%	Important
2.	Entrepreneurial orientation	19	95%	Important
3.	Network relationship (including social and business networks)	18	90%	Important
4.	Foreign market knowledge	19	95%	Important
5.	Experience (experience abroad and industry experience)	13	65%	Moderately important
6.	International business management skills	18	90%	Important
7.	Positive attitude towards risks	19	95%	Important
8.	Education level	11	55%	Moderately important
9.	Owners'/ managers' age (the younger, the more aggressive to internationalise)	4	20%	Less important
10	Foreign language proficiency	14	70%	Moderately important
11	Positive perception about export barriers	17	85%	Important
<i>Internal: Organizational characteristics</i>				
12	Competitive price	15	75%	Important
13	Firms' age (the longer in the industry, the more intention to internationalise)	4	20%	Less important
14	Firms' size (the bigger the size, the more intention to internationalise)	4	20%	Less important
15	Research and development (R&D)/ innovation	16	80%	Important
16	Technology (including internet and production technology)	17	85%	Important
17.	Products' quality and uniqueness	19	95%	Important
18.	Psychic distance	9	45%	Less important
19	Competitive advantage (e.g. price leadership, unique products).	16	80%	Important
20	Low labour cost advantage	10	50%	Moderately important
21.	Human capital management capability/ specialised human resources	16	80%	Important
22	Business alliances (with firms from the same country or abroad)	14	70%	Moderately important

23	Reputation and trust	19	95%	Important
24	The aims to achieve sales and profits growth	14	70%	Moderately important
25	The desire to reduce risk by expanding the market	15	75%	Important
26	The desire to increase resource seeking/ production capacity	15	75%	Important
27	Organisational learning intention	15	75%	Important
28	Market orientation	16	80%	Important
<i>External: Environmental characteristics</i>				
29	Industry networking/ association	18	90%	Important
30	Potential industry/ nature of industry	15	75%	Important
31	Better rules and regulations in the home and host countries (including tax, FTA)	16	80%	Important
32	Financial funding opportunities	17	85%	Important
33	Saturated domestic market	10	50%	Moderately important
34	Focal supplier/ foreign market trading house	17	85%	Important
35	Government export assistance/ export promotion programmes by public organisation	14	70%	Moderately important
36	Receive inquiry from international market/ unsolicited order from abroad	17	85%	Important
37	Changes in global business conditions (e.g. economics, products, technology)	14	70%	Moderately important
38	Competitor activities	13	65%	Moderately important
39	Importer's specific investment	13	65%	Moderately important
40	Importer role performance	13	65%	Moderately important
41	Weather and climatic advantages (agriculture-based businesses)	11	55%	Moderately important
42	Globalization phenomena (such as advanced internet technology, transportation system, fewer trade barriers)	18	90%	Important
43	Foreign market attractiveness/ international market opportunity	17	85%	Important
44	Political stability	12	60%	Moderately important
45	Ethical issues in both home and foreign countries (e.g. corruption/ bribery)	16	80%	Important
46	Halal certification	11	55%	Moderately

				important
47	International standards accreditations (e.g. ISO, HACCP)	7	35%	Less important

**Note:** important factors is classified as a factor with frequency 75% to 100% of total participants; moderately important is a factor with frequency 50% to 74%, and less important factors is a factor with frequency 0% to 49%.

**5.1.1 Entrepreneurial orientation:**

*“A lot of SMEs comfort with existing performance, but I do not satisfy with stagnant performance. Consequently, I go to international markets to increase sales, company’s growth, knowledge and experience.”*  
(Company A).

Most of the participants show the high intensity of entrepreneurial orientation including innovative, proactive and desire to take the risk. Majority of research participants proactively involve in international marketing by frequently travel to foreign countries. They avoid being reactively waiting for order inside the country. Instead, they travel abroad for promotion and marketing. Company G joins the Malaysian Government promotion programs in overseas markets every year to explore different marketplace. Also, Company G involved in international innovation competitions and was awarded winner in Gulf Food Awards 2015. Some other firms take proactive decision to produce goods in overseas markets as the strategy enable them to offer quality goods and competitive price to overseas clients. Company M frequently travels to Middle Eastern countries to explore markets without having an order after many times travelling. However, the owner willing to take a risk on travel money and get an order from the foreign buyer at last.

**5.1.2 Foreign market knowledge:**

*“We have good products related to food and beverages, they are well accepted locally, but we do not know the preference of overseas customers, we need information about their preferences regarding taste, price range etc. Knowledge of foreign markets is essential to us...”* (Company A).

*“I did not know the procedures to export at first order, a government agency like MATRADE assisted me to complete the export process.... I obtained foreign market knowledge from the government agency”*  
(Company H).

*“We need to know the demand from overseas customers; we cannot sell something that they do not need it...”* (Company B).

The research found the importance of foreign market knowledge in the internationalisation process. For example, knowledge of foreign rules and regulations is required to avoid denial of getting products into foreign countries due to lack of information. The denial to enter foreign market happens to Company C where their products have been denied from getting into China. The products were ceased at

China port before they send back to Malaysia. The reason was due to lack of information on procedures of exporting health products to China. Hence, foreign market knowledge is crucial to meet foreign markets demands and regulatory procedures. Foreign market knowledge could be obtained from a government agency such as MATRADE and MITI, relatives and friends from overseas, as well as, experience from studying and working abroad.

### **5.1.3 Positive attitudes towards risks:**

*“Every business confronts risk; the risk is everywhere locally and internationally, so we need to take it as positive and change it into opportunities...”* (Company B).

*“For me, the risk is part of experiences; I take the risk as a positive way to get experiences...”* (Company D).

*“I have spent much money without getting anything, just sending samples and I think it has been more than RM100,000. However, I take the risk positively...”* (Company I)

Concerning positive attitudes towards risks, the majority of interviewee admit that they face risks in every stage of their business. They take it as a positive way as business learning processes and strive to overcome every risk. Some of the participants like the company (D) reduce the overseas risks by doing initial research and ground works before entering any foreign country.

## **5.2 Organisational characteristics:**

Out of total 19 variables discovered regarding environmental characteristics, 13 factors have been found having a consensus of participant more than 70 per cent. The most three tops essential determinants concerning organisation characteristics are: i) products' quality and uniqueness (95%); ii) reputation and trust (95%); and iii) technology (including internet and production technology).

### **5.2.1 Products' quality and uniqueness:**

*“Our company is known as a company that provide good quality of fire vehicles; clients choose us because of the quality of products that we provide to them...”* (Company F).

*“In China, we provide clients with our premium quality health products which are completed with Halal certification. Malaysia halal certification has been recognised in China due to good manufacturing practices, and it has added value to Muslim users in China. Hence the target market is wider rather than selling health products with standard certification...”* (Company C).

Malaysian SMEs are improving their products' quality to compete in international market particularly selling products to European countries. Due to increasing factors of productions in Malaysia every year such as labour and materials cost, Malaysian SMEs' now are focusing on providing overseas customers with unique and premium quality products. This has been confirmed by MATRADE's officers (R); *"we want to position out companies as companies that are selling premium and quality products, we can't position our firms by selling cheap products since we need to compete with companies from China which have been providing products with the cheapest price in the world"*.

### **5.2.2 Reputation and trust:**

*"There is a positive correlation between trust, products quality and price. Our foreign customers normally require these three components when we go abroad..."* (Company F).

The research found trust is very significant as a factor of internationalisation. Some of the companies create their reputation and trust from the first order. They established ground works and analysed organisation's capabilities before offering and selling products to overseas markets. For example, Company Q engages in supercar trading in Singapore. They acquire deposit before delivering the car to the buyer. In this case, they need a strong reputation and trust to penetrate wealthy and high-income peoples. Company N engages in trading foods and beverages to overseas markets. They play a role of middleman between Malaysian manufacturer and customers in overseas. In this regard, both manufacturing and buyers in overseas markets have always trusted them.

### **5.2.3 Technology:**

*"Food industry depends on technology. I used to sell foods that can only last for 3 hours, but with the new technology that I have obtained, I can now produce foods that can last for twenty-four months. As a result, I have sold products to Japanese"* (Company I).

*"My business is depending 100% on technology as we involve in web design business. I communicate with overseas customers through the internet without the need for travelling to those foreign countries"* (Company L).

Technology such as internet technology and production technology are very crucial for Malaysian SMEs to diversify their business abroad. With the advent of new communication technology, firms can communicate with their clients and establish business transactions without travelling. Also, internet technology has been used as marketing tools and after-sales service for overseas customers. With the advent of production technology, Malaysian SMEs could produce quality and innovative products.

## **5.3 Environmental characteristics:**

Out of total 17 variables related to organisational characteristics, nine factors have been found have a consensus of participant more than 75 per cent. The most 3 tops essential determinants with regards to environmental characteristics are: i) Industry networking/ association (90%); ii) Globalization phenomena (advance communication technology, better transportation system, reduction of foreign trade barriers (90%); and iii) Financial funding opportunities (85%). The new variable related to ethics issues also plays essential roles in the internationalisation of Malaysian SMEs, which accounted for (80%). Hence, each variable will be discussed in detail.

### ***5.3.1 Industry networking/ association:***

Industry networking is vital for Malaysian SMEs to internationalise. Networking is portrayed as a gatekeeper who controls access for SMEs to enter foreign countries. For example, manufacturers in electrical and engineering products should joint Consumer Technology Association or Malaysian Chamber of Commerce for several reasons such as network creation; exchange knowledge on customers, products and new technology; promoting their products to foreign customers through industrial partners; as well as, getting potential supplier on emergency situations such as shortage of materials and resources on the event of excessive demands. The importance of the network relationship has been approved by Company K where they always shortage of rubber when there is over demands of rubber from Vietnam. In this situation, they always use industrial network and association in outsourcing processed rubber to meet the excessive demands from Vietnam. Some other companies use the industrial association in getting feedback on their products from industries partners in foreign markets. For example, Company I use industrial networks in Japan, Korea and Australia to get feedbacks in developing their new products.

### ***5.3.2 Globalization phenomena:***

Globalisation phenomena is one of the critical factors influencing Malaysian SMEs internationalisation. Reducing trade barriers such as foreign trade agreements (FTA) in Asian countries ease the process of exporting and investment of Malaysian SMEs. However, Malaysian SMEs are still confronting with meeting the standards of supplying goods and services to European countries to date. While active transportation eases the CEO of Company F frequently travel around the world to create a reputation with potential foreign buyers, as well as, meeting suppliers on producing their fire vehicles, Company L maximises communication technology by serving their web-designing clients via online business transaction. As a result, the globalisation phenomena has improved participation of Malaysian SMEs in the foreign marketplace.

### ***5.3.3 Financial funding opportunities:***

Company A utilises financial funding opportunities provided for exporters in Malaysia, especially from the government sector. They utilise funds provided by a



local agency like MARA to obtain advance equipment for production of food packaging. Apart from that, they have also used working capital funds provided by banks to produce packaging foods ordered by customers from overseas. To them, financial funding is crucial in the business especially dealing with overseas customers who generally order in bulks. While Company B has also used business fund facilitated by banks when there is order from overseas customers on their beverage products. Company C posits that most SMEs need financial funding opportunities as they confront with smallness and lack of resources.

#### **5.3.4 Ethics issues affecting the decision to internationalise:**

Ethics issue is one of the factors that Malaysian SMEs consider when they diversify business abroad. Company A never refer to corruption index but considers performing due diligent towards any foreign customer to avoid cheating. Regarding consideration of the level of corruption in foreign markets, specifically, issues related to bribery, the Company C considers the level of corruption in the foreign markets before going abroad due to avoidance of making unofficial payment to foreign officials. The reason for such consideration is due to the involvement of their company in trading health products, which require them to deal with different foreign departments. *“Just imagine how much we need to pay for unofficial payment if we need to get our products approved from ten foreign departments if the country is high in corruption...”* (Company C). Hence, the Company C always refer to the corruption index of a country before diversifying abroad. Although the Company F sells their fire vehicles internationally through tender, they avoid appointing foreign subsidiaries in countries that accounted with a high index of corruption as the company want to maintain goodwill and tend to avoid making extra payments.

Hence, in dealing with tender in countries with a high level of corruption, they take the strategy of selling to local companies or perform direct tender from home country without using an intermediary. Company G proffers that they have blacklisted some countries that are labelled with high corruption. They are instead not selling their goods to those countries even though there is demand from the countries. As a company that sells foods with halal certification, the company G need to maintain the goodwill of such halal certification without making illegal payments to foreign officials.

#### **5.4 Impacts of internationalisation on SMEs' performance:**

This study found there is a significant positive impact of internationalisation adoption on Malaysian SMEs' business performance, particularly regarding financial and non-financial performance. The results show that firms, which have been established in local market, aim to increase financial performance particularly increasing sales revenue and marketplace. For example, Company F diversifies to foreign markets because the industry of fire vehicles is tiny and niche, hence they go to the international market to widen the marketplace. By engaging in the international business, they could increase their sales performance. Company O provides food restaurant services in international markets due to market saturation in Malaysia. Because of taking the internationalisation strategy, the company could improve their

sales and performance. Conversely, most of the interviewed SMEs confirmed the internationalisation adoption impacts on their non-financial performance. For example, company A and Q achieve the satisfaction of being successful in selling their products in overseas markets. Locating products in overseas markets is a good achievement for them as they are still new in the international marketplace. For them, goodwill of the company by being export goods to overseas markets is important to be competitive in future. Furthermore, the Company N exports their goods for learning and gaining knowledge of overseas markets, as well as, improving products' quality.

## **6. Conclusion:**

The results from the semi-structured interviews showed that only 27 variables out of total 47 variables that found in the extant literature are appropriate in explaining the determinants of internationalisation adoption by Malaysian SMEs. The result is supported by the findings of Dunning (1998) and Zaki *et al.* (2015) who observed that the determinants of internationalisation might differ according to industrial sectors, countries of study; the size of firms; industrial context; inward or outward internationalisation, as well as, time precocity of internationalisation. As a result, the findings provide a strong basis for developing a conceptual framework for investigating determinants of Malaysian SMEs internationalisation and its impact on business performance (see figure 1).

## **7. Contribution, Limitations and Direction for Future Research:**

This paper guides Malaysian SMEs that aspire to enter into the foreign markets. The Malaysian government and other related business support organisations such as the chamber of commerce might also use the information provided in this current research to facilitate and promote Malaysian SMEs in integrating internationalisation adoption into their daily business activities. Moreover, within the academic world, this research provides a comprehensive conceptual framework regarding the different determinants of SMEs internationalisation, as well extending the model of SMEs internationalisation by introducing a new measure in investigating the determinants of SMEs internationalisation, particularly, regarding ethical considerations while deciding to extend business abroad.

However, this current research faces several limitations. First, regarding the scope of the study. This research only focuses on Malaysian SMEs rather than concentrating on a broader scope such as SMEs in emerging countries and within regional territory such as Asian. Second, the researchers conducted data collection through semi-structured interviews. Hence, the finding in this research is non-generalisable for all SMEs in Malaysia. Third, the researchers did not interview non-exporter SMEs within this study while information from the non-exporter SMEs might be useful in understanding this phenomenon from a different perspective.

Based on the above limitations, it is recommended for future research to undertake future works in several areas. First, it is more fruitful to discover factors

influencing SMEs internationalisation in broader country's scope such as Asian to compare and contrast the findings with the existing works. Second, since this study focuses on developing a conceptual framework, future research may validate this framework by conducting a statistical test study. Finally, future researchers might also collect data from non-exporters to understand their companies' needs for internationalisation adoption.

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**Figure 1:** Conceptual framework for investigating determinants of Malaysian SMEs internationalisation and the impact upon business performance.

