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Internationalization of SMEs in Malaysia: A Critical Role of Firm Resources

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ABSTRACT

In reality, the first "large step" of internationalisation is securing the abundance of resources, which is essential for the adjustment to internationalisation environments and a massive step in a firm's business cycle. This study highlights the elements of firm resources management, which determines Malaysian SMEs' internationalisation strategies. This study used the purposive sampling to select 860 SMEs listed in the Federation of Manufacturing Companies (FMM) directory. The PLS 3.0 software was used to test the significance of the relationship between the proposed constructs. Findings indicate that the proper management of a firm's resources contributes to the realisation of internationalisation strategies. Furthermore, suitable strategies could help firms avoid failure during business operations. Findings also imply the immediate need to understand the role of firm resources in aligning the appropriate internationalisation strategies.

1 INTRODUCTION

In this globalisation era, each country is economically interconnected, thus, increasing the potential for businesses to experience internationalisation activities. When working with overseas clients and top producers, firms with a more significant degree of international involvement are more likely to reap greater revenues, realise economies of scale, and obtain crucial business-related knowledge and skills (Onkelinx, Manolova & Edelman, 2016).

Islam et al. (2020) asserted that the abundance of resources could assist firms in initiating internationalisation more promptly and continue to help the country's foreign business ventures in marketing its major products.

The term "internationalisation" refers to a firm's "foreign market servicing approach." Many small and medium-sized businesses are not actively engaged in foreign markets in the context of increasing the level of internationalisation, as they are less likely to possess resources or managerial expertise to compete at the international stage (Hessels & Parker, 2013). The internationalisation of small businesses is a critical component of economic development and firm expansion. Moreover, it has a positive impact on the economy, country's development, and is critical for the expansion of small businesses (Skrt & Antoncic, 2004). Internationalisation is an entrepreneurial activity undertaken by small and medium-sized businesses (SMEs), and its expansion in foreign markets is viewed as ventures that adopt new techniques on a broad scale.

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Although internationalisation can be viewed as a business decision based on the costs and risks involved, it can also be based on critical decisions involving hazards. Thus, if companies wish to overcome the difficulties of operating in host countries, they need to have a substantial ownership advantage. When SMEs first enter international markets, they are more vulnerable to issues related to foreignness liability, which can result in the reduction of SMEs' growth (Bell, 1995; Lu & Beamish, 2001).

Some scholars have extended previous findings by demonstrating that a firm's decision is influenced by the context in which it is established (Scott, 1995), as well as institutional influences present in the home nation. This type of atmosphere is more towards encouraging SMEs to internationalise (Cheng & Yu, 2008). When SMEs face financial difficulties, they usually devise intricate plans for their internationalisation stages (model stage). Conversely, other SMEs react in proactive ways.

According to Zahra et al. (2005), SMEs' international expansions occur when they search for new prospects in foreign markets, which allows them to exploit their core capabilities in the borderless market. Aside from the previous explanation, the various networks amongst firms and personal networking amongst owners where SMEs are established will impact their decision to internationalise.

Previous studies suggest that firm resources are crucial antecedents for SMEs' internationalisation (Dunning, 1988). Similarly, in deciding where to market the products or sharing technological knowledge with foreign partners, SMEs will opt for market-seeking or asset-seeking strategies (Demirbag and Glaister, 2014). Additionally, emerging SMEs prefer to build a good bond between home and host institutions rather than securing tangible or intangible resources (Madhok, 2014). In contrast, SMEs from developed countries are prone to possess tangible and intangible resources, such as size, experience, sophisticated technologies, skilful human capital, reputation or world recognition brands.

2 PROBLEM STATEMENT

Small and medium-sized businesses (SMEs) specifically help in reducing unemployment in every economy around the world. Malaysia's economic growth for the past decade has been mainly due to contributions by SMEs. However, previous studies have shown that 13% of SME enterprises were not fully operational for the first five years of their establishment (Abdullah, Deen, Saban & Abdurahman, 2009). In Malaysia, for example, the failure rate among SMEs is considered high at 60%. (Domestic Trade and Consumer Affairs Ministry, 2011). Besides, the manufacturing sector has become the major contributor to the export industry; however, it started declining from early 2014 to 2015 (Department of Statistics Malaysia, 2015).

Several studies have shown that resources are critical for the sustainability of small and medium-sized businesses. According to Sapienza et al. (2006), the availability of primary resources is critical for the survival of nascent businesses due to the element of unpredictability inherent in unfamiliar foreign contexts that might force the unexpected adjustment of established routines and capacities. Firms with abundant resources are better equipped to alter their routines, allowing them to react more quickly to environmental changes and increase their chances of survival abroad. Environmental changes caused by the digital economy could impact corporate internationalisation (Fajar et al., 2020). Furthermore, Sui and Baum (2014) found that company resources help firms to survive in the foreign market. Scholars also discovered that most small firms are exposed to rising foreignness risk, which raises the need for slack resources that lead to chaotic situations and make them more prone to failure. This is in line with Pedersen and Shaver (2011), who argued that for a first "large step" in internationalisation, enterprises need resources to thrive in the internationalisation environment in order to ensure survivability during the business cycle.

This study refers to these factors collectively as company resources and aims to investigate the importance of these factors in Malaysian SMEs' internationalisation plans.

3 THE OVERVIEW OF MALAYSIAN SMES

Malaysia has placed substantial value on entrepreneurial activity to boost economic growth and improve social standing in the community (Juha et al., 2017). Malaysian SMEs are recognised as the backbone of Malaysia's economic growth, especially in regard to employment and growth. SMEs contributed to 99% of business establishments in Malaysia, and 37.8% of the country's Gross Domestic Product (GDP) in 2017 (SME Corporation). SMEs account for 56% of overall employment and 17.3% of total exports in the country. It is predicted that domestic SMEs are a significant engine of growth that will help Malaysia attain a developed nation status with a high-income population in the future.

Hence, in order to ensure that SMEs can expand their business globally, the government has exerted tremendous efforts to create a conducive and dynamic business environment, for instance, the creation of government agencies such as the Malaysian Entrepreneurship Development Centre, SME Corporation, and Multimedia Development Corporation (MDeC). In the context of export activities, the Malaysia External Trade Development Corporation (MATRADE) is a national trade promotion agency that offers export development and training to all potential exporters in order to support Malaysia's exports and position the country as a globally competitive trading nation by "selling" Malaysia's enterprise to the world (MATRADE, 2019).

In order to promote business growth, the Special Taskforce to Facilitate Business (PEMUDAH) was established to improve existing government processes and regulations based on public feedback and global benchmarking reports, particularly in the areas of land, licenses, expatriate employment, and taxation (PEMUDAH, 2017).

Financial assistance for these ventures is provided by Bank Negara, Bank Simpanan Nasional etc. Furthermore, in order to encourage more innovation from local businesses, the Malaysian Intellectual Property Corporation (MIPC) provides services in administering, supervising, and managing intellectual property, as well as encouraging the creation or invention of intellectual property so that it can be legally protected.

4 LITERATURE REVIEW

Firm resources

Barney (1991) postulated that resources refer to assets, capabilities, organisational processes, firm attributes, information, knowledge, and other resources controlled by a firm and implemented relevant strategies in efficient and effective ways. According to Peng (2002), most SMEs prefer to opt for joint ventures and strategic alliances in order to access financial resources and technologies. Moreover, firm resources can overcome impediments to business expansion that are caused by a lack of knowledge on foreign market environments and crucial resources (e.g., capital and technology).

Bloodgood et al. (1996) argued that when firm resources are inimitable, it makes it easier for them to internationalise in the foreign market. Firms also need to acquire skills, knowledge and capital by opting for joint ventures and partnerships. Hence, financial resources, manufacturing, reputation, and human capital are recognised as four resources that explain the SME's internationalisation process in this study.

The leading resource that acts as a significant growth factor for the firm is financial resources (Doukas & Lang, 2003). Ito and Rose (2002) and Mishina et al. (2004) found that scarcity of financial resources curtails the firm's marketing ability to expand globally or contemplate taking advantage of any market openings. As a result, if a company's financial resources are insufficient, it will be limited in its global activities and will be unable to compete with other competitors for global leadership. Firms can obtain financial resources from a variety of sources that are unrelated to cost concerns, but they must comply with relevant requirements in order to do so. In fact, Tseng et al. (2007) also claimed that a company's resources must be matched with the required rate of global expansion, which will influence its internationalisation initiatives.

Furthermore, manufacturing resources refer to the process of converting raw materials into finished products through the use of manpower, machine tools, chemical and biological processing, as well as formulation. This entails a wide range of human activities involved in manufacturing activities, from handicraft to high technology, which is commonly used for industrial production (Muhamad Shabir, 2019). According to Hall (1993), technology resources are among the most important asset for any industrial production as it is a significant provider of procedures that add value to products. Moreover, production facilities must be modernised regularly to keep up with the internationalisation process (Muhamad Shabir,2019). For the purpose of this study, technology-based capability is best explained as a manufacturing dimension in firm resources.

In a nutshell, the root of a firm's long-term competitive advantage is technology-based capabilities (Lee, Lee and Pennings, 2001). It has long been regarded as one of the most important strategic resources that bolters a company's ability to build performance differentials in its industry (Tsai, 2004). Since the technology-based skill is established in a firm's routines and practices, it is difficult for competitors to reproduce or imitate it due to its sophisticated and tacit nature (Lee, Lee and Pennings, 2001; Makadok, 2001); hence, it provides an advantage to performance (Tsai, 2004). Patents, technological expertise, trade secrets, knowledge gained through R&D, and other essential manufacturing skills are all part of technology-based capabilities (Hsieh and Tsai, 2007; Lee, Lee and Pennings, 2001).

It has been proposed that possessing technology-based capabilities does improve business performance as well as the choice of internationalisation techniques in two ways. A company can increase efficiency by pioneering process changes or revamping products or it can differentiate itself by speeding up the development of new products and therefore, seize additional market opportunities (Zheng and Qu, 2015).

According to Barney (1991), when a firm has inimitable, creative, and substitution resources, then reputation resources will emerge and enable the firm to compete successfully. Overall, the reputation value is generated by the perception of potential and current exchange partners, such as customers, employees, and investors, and this creates economic profits. A good reputation helps a company to maintain its performance by cutting production costs, raising prices, and erecting competitive barriers in the marketplace (Deep house, 2000). Brand equity is a type of intangible image-based asset that is significant to the literature on export performance (e.g., Steenkamp, Batra and Alden, 2003). Brands are considered as intangible assets that help firms to grow, develop their market share, leverage costs and create the ability to launch new products timely in a foreign market (Aaker, 1996).

Lastly, human capital is a term that refers to a critical resource that affects a firm's survival, expansion, and ability to generate organisational rents (Greene et al.,2001). Cultural intelligence can contribute to the creativity of human capital, which is critical in producing high-skilled workers and ensuring a successful internationalisation process (Hartini, Fakhrorazi & Rabiul, 2019). Imparting knowledge to each worker is critical in order to succeed in the internationalisation process as the wealth of knowledge in each organisation's human capital will influence the firm's growth in business ventures (Loke, Fakhrorazi, Caturida & Lim, 2020). Internationalisation requires four dimensions of human capital, which are experience and skills, perception of the foreign environment, international orientation and demographics (Knight and Cavusgil, 1997).

Resources or other inputs used during the manufacturing process must be unique, difficult to duplicate and specialised in a specific business (Penrose, 1959). A firm also needs to evaluate its internal capabilities in order to grow and survive successfully against its competitors (Galunic and Anderson, 2000; Pennings et al., 1998). Furthermore, personnel norms, such as attitudes, have a role in the internationalisation process (Foon et al., 2020). Cooper et al. (1994) postulated that human capital, management skills and experts, and business knowledge are strongly linked with SMEs' survival.

Internationalisation Strategies

The most challenging plan that any company can adopt is internationalisation. This method is anticipated to play a more critical role in the future. SMEs, in particular, may be forced to employ this method as a result of increasing market globalisation. Hence, more research is needed in order to seek solutions as to how SMEs can penetrate the international market and also how to improve the solutions.

A substantial amount of empirical research has indicated the practice of internationalisation strategies in many countries (Azura, Osman & Hazlina, 2018). However, little thought has been given to the impact of this strategy on domestic institutional pressure. The number of studies on SMEs dealing with issues caused by various tactics is still minimal.

According to Agndal and Sylvie (2007), there are various approaches that a company can adopt when designing its global strategies n line with its intention to engage in internationalisation, which leads to the company's international activities. On top of that, from a management perspective, it acts as a guideline for firms that intend to establish their internationalisation process, either in organisational structure, marketing or diversification of markets.

This study focuses on the four primary strategies used by SMEs in Malaysia, namely, entry mode, target market, product adaption, and market spreading strategies. When it comes to international business, the route of entry is a crucial factor in shaping a company's internationalisation strategy. Exporting has commonly been adopted by SMEs, and firms usually have two options, either to export directly to the worldwide market or export indirectly through intermediaries (Peng & York, 2001).

Peng and York (2001) had defined intermediaries as domestic or international agents who act between firms and distributors. SMEs create a strategic relationship with large foreign enterprises by using intermediaries as a medium of internationalisation, which helps to overcome challenges caused by the virtue of being new to the market or country, foreignness, firm's size, access to foreign markets, advanced technology and reputation (Kuemmerle, 2002). However, due to a scarcity of resources, SMEs still face obstacles such as unfamiliar environments, inability to access the flow of ideas, and unusual rent appropriation. Export intermediaries help SMEs to initiate internationalisation by establishing interpersonal or intrapersonal networking that bridge distances between global markets (Peng & York, 2001).

The distance factor that determines the target market will have an implicit impact on the level of expertise required for internationalisation in terms of the distance between the home and host country, as well as the unfamiliar environment and knowledge about the host country (Ruzzier et al., 2007). Meanwhile, when the distance between the home and host countries is smaller, it provides an advantage to the home country as it can adapt well with the host country's environment and become highly involved in internationalisation.

Product adaption is a subset of product line expansion in international markets. According to Cavusgil and Zou (1994), the product adaptation strategy refers to how well firms match their product with local tastes and preferences. In other words, the home company has to create or modify a product in line with the requirements of the host country's customer needs. The firm's features and its external business environment are the primary determinants of this strategy (Leonidou et al., 2002; Menguc, 1997). A previous study had addressed a few factors that determine the product adaptation strategy, such as the type of product (products that vary according to market specificity), consumers' purchasing power, foreign market standards and norms, and significant cultural differences in terms of traditions, language, habits, and practice. However, the company's internal and external factors also influence the firm's strategic actions (Julian & O'Cass, 2004; Katsikeas et al., 2000; Theodosiou & Leonidou, 2003).

Meanwhile, the geographical scope of a company is measured by market spreading. A sprinkler approach (diversification) entails targeting numerous countries at the same time, while a concentration strategy involves meticulously focusing on one country at one time. However, due to the high sunk cost of obtaining resources, few companies have been able to internationalise simultaneously in all regions in recent years. A worldwide approach is not always the best solution, especially for freshly created SMEs.

SMEs are typically more willing to commit to internationalisation by progressively relocating from more advanced countries to less developed countries. This view was supported by Sluwegen and Onkelix (2010), who stated that firms would opt for a diversification strategy to gain economies of scale in research and development, which resulted in increased sales. Furthermore, this method may be able to predict competitive moves in some nations, resulting in increased sales and market share.

Hypotheses

Following are the list of hypotheses tested for this study:

H1a: There is a positive relationship between financial resources and entry mode strategy among Malaysian SMEs.

H1b: There is a positive relationship between financial resources and target market strategy among Malaysian SMEs.

H1c: There is a positive relationship between financial resources and product adaptation strategy among Malaysian SMEs.

H1d: There is a positive relationship between financial resources and market spreading strategy among Malaysian SMEs.

H2a: There is a positive relationship between manufacturing resources and entry mode strategy among Malaysian SMEs.

H2b: There is a positive relationship between manufacturing resources and target market strategy among Malaysian SMEs.

H2c: There is a positive relationship between manufacturing resources and product adaptation strategy among Malaysian SMEs.

H2d: There is a positive relationship between manufacturing resources and market spreading strategy among Malaysian SMEs.

H3a: There is a positive relationship between reputation resources and entry mode strategy among Malaysian SMEs.

H3b: There is a positive relationship between reputation resources and target market strategy among Malaysian SMEs.

H3c: There is a positive relationship between reputation resources and product adaptation strategy among Malaysian SMEs.

H3d: There is a positive relationship between reputation resources and market spreading strategy among Malaysian SMEs.

H4a: There is a positive relationship between human capital resources and entry mode strategy among Malaysian SMEs.

H4b: There is a positive relationship between human capital resources and target market strategy among Malaysian SMEs.

H4c: There is a positive relationship between human capital resources and product adaptation strategy among Malaysian SMEs.

H4d: There is a positive relationship between human capital resources and market spreading strategy among Malaysian SMEs.

5 METHODOLOGY

This study chose the Malaysian small and medium enterprises (SMEs) as a unit of analysis. The SME list was obtained from the Federation of Manufacturing Enterprises Directory, and 860 SMEs were selected as study samples from the registered list of companies. The samples were selected based on criteria established by the researcher, which are the SME's owner, manufacturing sector and targeted market. Samples comprised Malaysian small and medium-sized enterprises based in Peninsula Malaysia. 860 questionnaires were distributed, but only 124 were returned and used in the data analysis. The questionnaires together with a self-addressed return envelope, were sent by mail to the identified samples. This study intended to determine the importance of the link between home country pressure and Malaysian small and medium-sized enterprises' internationalisation efforts. The Smart PLS 2.0 statistical tool software was used to test the relationship between the variables.

6 RESULTS

The table below shows the hypothesis testing analysis regarding the relationship between firm resources and internationalisation strategies. Hence, to test the various hypotheses between constructs, calculation of the P-value for each path coefficient, where the P-value might be one-tailed or two-tailed, was carried out.

Table 1
Summary of Hypothesized Structural Relationship between Firm Resources and Internationalization Strategy

Hypothesis	Relationship	β	S.E	T	Supported
H2	FRC-> IS				
FRC1a1	FRC1->IS1	0.031	0.131	0.239	No
FRC1a2	FRC1->IS2	-0.157	0.111	0.278	No
FRC1a3	FRC1->IS3	0.041	0.119	1.315	No
FRC1a4	FRC1->IS4	0.189	0.111	0.367	No
FRC2b1	FRC2->IS1	0.108	0.123	0.881	No
FRC2b2	FRC2->IS2	-0.123	0.071	1.737**	**Yes**
FRC2b3	FRC2->IS3	0.235	0.121	1.935**	**Yes**
FRC2b4	FRC2->IS4	0.269	0.145	1.858**	**Yes**
FRC3c1	FRC3->IS1	0.189	0.123	1.536	No
FRC3c2	FRC3->IS2	0.100	0.085	1.176	No
FRC3c3	FRC3->IS3	-0.183	0.119	1.528	No
FRC3c4	FRC3->IS4	-0.267	0.139	1.924**	**Yes**
FRC4d1	FRC4->IS1	-0.118	0.136	0.868	No
FRC4d2	FRC4->IS2	0.205	0.112	1.831**	**Yes**
FRC4d3	FRC4->IS3	0.037	0.161	0.228	No
FRC4d4	FRC4->IS4	-0.018	0.153	0.119	No

According to the table above, the individual constructs of firm resources were represented by FRC1 (reputation), FRC2 (financial), FRC3 (manufacturing) and FRC4 (human capital). Meanwhile, internationalisation strategies were renamed as the mode of entry (IS1), target market (IS2), product adaptation (IS3) and market spreading (IS4). There were 16 sub-hypotheses to measure the relationship between firm resources and internationalisation strategies.

Results indicate that firm resources have a significant relationship with internationalisation strategies at a significant value of $p<0.05$. Out of the 16 sub-hypotheses, only 5 sub-hypotheses significantly influenced the relationship with T values of 1.737, 1.831, 1.858, 1.924 and 1.935. The coefficient value for financial resources and product adaptation relationship was 0.235, 0.269 for financial resources and market spreading, respectively, and 0.205 for human capital and target market. However, there is a negative significant effect on financial resources and target market with -0.123 and -0.267 for manufacturing resources, while market spreading had an inverse relationship.

7 DISCUSSIONS

This study's findings demonstrate that firm resources are essential for the internationalisation process and identified four resources that were classified as being crucial for SMEs internationalisation. However, it shows that out of the four resources mentioned, financial resources is the most important element needed by a firm to survive during its internationalisation activities (Kaleka, 2012). For example, companies can take advantage of introducing new items into existing and potential markets that have a wealth of resources. Initiatives such as iIncreasing the management's self-satisfaction, less resistance to seizure, and reacting promptly to external changes also help small companies to withstand pressure during the internationalisation process (Latham & Braun, 2009).

However, due to the high dependence on government aid, financial resources will not influence the mode of entry plan. Financial assistance for SMEs in new growth areas is provided by special funding schemes from developing financial institutions and other collaborating institutions (EXIM Bank, SME Bank etc.). This can be seen in the buying of firm premises and upgrading their devices as most SMEs need assistance such as preferred rate of loans and hybrid grants. One of the methods that help SMEs in this matter is the Working Capital Guarantee Scheme (WCGS). The WCGS helps SMEs to evaluate their performance level by applying these diagnostic tools.

In addition, results also revealed that respondents' (SMEs) brands are not a strong reputational resource; hence, it is not a crucial factor that influences the implementation of a firm's internationalisation strategies. This indicates that most SMEs gradually develop their brand names in the domestic market. This view was supported by Brouthers and Nakos (2005), who suggested that there was a negative impact by brand reputation on the number of years of sales outside the German market.

The technology resource too does not have a significant influence on entry mode or product adaptation strategies. In reference to the context of the study, Malaysian SMEs rely 100% on initiatives by government agencies to search for potential networking and market access to market their products (MATRADE, 2021).

Lastly, results for the relationship between human capital and entry mode, product adaptation and market spreading were not significant. This view was supported by Hashim (2011), who agreed that the insignificance was caused by a lack of managerial skills and expertise among SMEs themselves.

8 LIMITATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

This study faced several limitations. Firstly, the study's sample size was restricted to 124 SMEs due to time and resource constraints. Since the number of respondents was limited, findings cannot be extensively generalised. Second, this study used the cross-sectional method, whereby data were collected at a particular period. Thirdly, this study exclusively examined the direct consequences of internationalisation strategies on SMEs based on four variables, namely financial resources, production, reputation and human capital.

Therefore, due to the small number of respondents, future studies can increase the response rate by gathering information on potential SME samples during SME exhibitions organised by government agencies, such as MATRADE, or the private sector. This can also increase the generalisation of the findings as well. Future studies can also adopt the longitudinal research approach. Similar studies should be undertaken at least every three years to determine whether internationalisation strategies have improved, deteriorated or is static and since the study only examined four variables (financial resources, manufacturing, reputation and human capital), hence, other variables (internal and external resources) might influence SMEs' internationalisation strategies. Components of SMEs' internationalisation strategies, such as knowledge transfer and organisational learning, can be added as one of the mediators or moderators.

Future studies can achieve a better response rate by targeting these programs, which will increase the generalisation of the findings. SMEs' internationalisation approach is better investigated using the longitudinal research method. Additional knowledge on SMEs' internationalisation strategies can be provided to the mediator or moderator. For example, organisational learning is essential for deliberating whether small and medium-sized enterprises actually need internationalisation.

In a nutshell, future studies that differentiate between unabsorbed and absorbed slack (Tan & Peng, 2018) should be carried out. It might provide new findings on the effects of financial slack, human resources slack, operational slack and customer-relation slack related to SMEs' survival at internationalisation.

CONCLUSIONS

In conclusion, the findings provide information that substantiates previous studies. Findings demonstrate the need for SME managers to formulate suitable strategies to avoid business failures. Based on the results, the firm's resources are divided into three dimensions, namely financial, reputation, and human capital and these are all essential dimensions for SMEs to consider when conducting international business.

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