

CHAPTER 1

INTRODUCTION

1.0 Summary

The first chapter of this thesis opens with the background of the study and further describes the field of international entrepreneurship and the internationalization of small and medium enterprises (SMEs) in Malaysia. This is followed by the research objectives, research questions and significance of the study. The chapter concludes with the organization of the thesis.

1.1 Background of the Study

Despite the important role of SMEs as a key contributor in international entrepreneurship, empirical research focusing on Malaysian SMEs in the area of internationalization has been limited. This study attempts to investigate the contributing factors towards internationalization and the performance of SMEs in Malaysia. It originates from the aspiration to contribute to what is known about international entrepreneurship and commitment to improve performance of Malaysian SMEs in international markets.

Globalization of the world economy has resulted in the speedy growth and increased interest in international entrepreneurship over the past decade (Brush, 1993, 1995; McDougall et al., 1994; Oviatt and McDougall, 1994, 2005; Hisrich et

al., 1996; Hitt and Bartkus, 1997; McDougall and Oviatt, 1995; Busenitz et al., 2003; Zahra and George, 2002; Zahra et al., 2005; Knight and Cavusgil, 1996, 2004, 2005; Keupp and Gassmann, 2009; Hisrich et al., 2010; Coviello et al., 2011). Subsequently, scholars, business people and governments have come to view international entrepreneurship as an important resource for improving the performance of companies and economies, as found by various international entrepreneurship studies. Most of these studies utilize organizational characteristics, environmental factors, factors that determine internationalization and firm strategies as independent variables to explain international entrepreneurship performance (Zahra and George, 2002; Oviatt and McDougall, 1995; Burgel and Murray, 1998; Autio et al., 1997; Zahra et al., 2000; Bloodgood et al., 1996; Busenitz et al., 2003; Welch and Welch, 2004; Zahra et al., 2005a; Coombs et al., 2009; Chandra and Coviello, 2010; Naude and Rossouw, 2010; Kiss et al., 2012).

The efforts of various scholars to design a well-grounded framework to better understand the nature and effect of international entrepreneurship has, however, largely concentrated on the application of various theoretical perspectives. In essence, they explained this phenomenon by disproving the applicability of traditional frameworks (e.g., McDougall et al., 1994; Oviatt and McDougall, 1994; Buttriss and Wilkinson, 2006). Moreover, the field of international entrepreneurship is fragmented, inconsistent and lacks common theoretical integration, thus resulting in rather uncertain progress in this field (Keupp and Gassmann, 2009; Coombs et al., 2009; Jones et al., 2011). Despite being insightful and informative, past research has

also raised questions about its overall value due to utilization of different theoretical and methodological traditions. Furthermore, prior research has also lacked a unified framework that connects the antecedents, types, and outcomes of internationalization pursued by new ventures and established companies (McDougall and Oviatt, 2000; McDougall, 1999; Young et al., 2003; Georgiou et al., 2005; Dimitratos and Jones, 2005; Jones and Coviello, 2005; Jones et al., 2011). This area remains largely neglected, thus presenting a major gap in developing a general framework for understanding international entrepreneurship.

Despite the progress made in strengthening international entrepreneurship research, important issues remain unresolved due to research limitations or shortcomings (Zahra and George, 2002; Sarasvathy, 2004; Zahra, 2005). For example, most studies have focused on relatively young high technology industries located in developed countries with little emphasis on traditional industries (e.g., Bloodgood et al., 1996; Autio et al., 2000; Zahra et al., 2000; Busenitz et al., 2000; Bruton et al., 2008; Keupp and Gassmann, 2009; Coombs et al., 2009; Senik et al., 2010; Coviello et al., 2011) while knowledge on international entrepreneurship in emerging economies is limited (Kiss et al., 2012).

Most studies have presumed that international entrepreneurship is indicated by simply measuring a firm's international sales revenues (McDougall, 1989; McDougall and Oviatt, 1996; Bloodgood et al., 1996; Reuber and Fischer, 1997;

Roberts and Senturia, 1996). Past studies also made conclusions based on case studies or a small sample of respondents (Autio et al., 2000; Bloodgood et al., 1996; McDougall and Oviatt, 1996; Tiessen and Merrilees, 1999; Coviello and Jones, 2004; Chelliah and Sulaiman, 2010).

To date, international entrepreneurship studies have contributed a large pool of manufacturing and high-technology studies for comparative examination but there is a lack of service sector research or comparative research within and across sectors (Coviello and Jones, 2004). Few studies have examined service industries (Erramillia and D'Souza, 1993; Moblang, 1995; Abdul-Aziz and Wong, 2010) which remain historically understudied (Erramilli, 1990, 1992; Clark et al., 1996; Chadee and Mattsson, 1998; Clark and Rajaratnam, 1999; Samiee, 1999; Davis, 2004). Knowledge about particular organizations is also relatively new and limited (Samiee, 1999), with the agribusiness sector being much neglected by researchers (Crick and Chaudhry, 2000; Kevin, 2005).

This research explores three main industries; manufacturing, service and agriculture, consistent with recommendations in the literature for greater diversity in the industry scope (Zahra et al., 1999) in the emerging economies, with the specific intention of assessing whether theoretical perspectives developed in mature market contexts are valid in emerging economies (Bruton et al., 2008; Shenkar and Von Glinow, 1994). By exploring a variety of industry contexts, international

entrepreneurship scholars can enhance understanding of the links between industry level variables and internationalization patterns, as well as contribute to theories that may be generalized to a greater range of economic sectors (Zahra and George, 2002).

In recent years, researchers have become increasingly interested in the performance outcomes of internationalization among small firms (Fahy, 2002; Majocchi and Zucchella, 2003; Westhead et al., 2001; Dimitratos et al., 2004; Lu and Beamish, 2006; Aspelund et al., 2007; Coombs et al., 2009; Keupp and Gassmann, 2009; Chandra and Coviello, 2010; Chelliah and Sulaiman, 2010; Kiss et al., 2012). The effects of a firm's financial status on its internationalization have become a research interest. The four elements of a new venture's financial status examined in past research include Return on Equity (ROE), Return on Assets (ROA), Growth of Sales and debt leverage (Zahra et al., 2000; Baum et al., 2005; Greve, 2003; Lu and Beamish, 2006; Grant, 1987; Siddharthan and Lall, 1982; Bloodgood et al., 1996).

Yet, financial performance may not be the major indicator to explain the internationalization of a new venture's sales. Some of these new ventures most likely expand internationally as a means of achieving a variety of strategic goals. Moreover, several studies have related international entrepreneurship to non-financial performance. Oviatt and McDougall (1995, 2005a) connected internationalization to market share and competitive advantage while Zahra et al. (2000) have related internationalization to technological learning and acquisition of

new knowledge. To achieve better results and justify the outcomes of internationalization, this study used both financial and non financial performance.

Strategic management and entrepreneurship researchers have recognized the importance of the external environment on firms' various strategic choices (Boyd et al., 1993; Zahra et al., 1997; Preece et al., 1999; Zahra and Bogner, 2000; Jones and Coviello, 2005; Oviatt and McDougall, 2005; Szyliowicz and Galvin, 2010). McDougall (1989) found that international new ventures competed in industries that exhibited significantly higher levels of government protection and regulations, thus confirming that reputation as an important strategic asset (Fomburn, 1994; Hall, 1993), particularly for young entrepreneurial companies (Bell and McNamara, 1991). A favorable reputation, constructive support, connection to powerful and established networks and other invisible assets can greatly influence the ways companies proceed to position themselves (Itami and Roehl, 1987), especially in international markets. In fact, Van De Van (1993), Mohd (2005), Arowomole (2000) and Kuratko et al. (2004) suggested that external factors predict and significantly affect entrepreneurial performance. Van De Van (1993) further suggested that studies within the field of entrepreneurship development that do not consider the external environment should be considered incomplete and invalid. By integrating the external environment factor in terms of government support, this research seeks to better document and better model the relationships between internationalization and firm performance.

There has been increased interest in the internationalization activities of SMEs (Coviello and McAuley, 1999; Nik Abdullah and Zain, 2011). While current studies have explored the antecedents and process of the internationalization of SMEs, their performance impact remains under-explored (Zahra and George, 2002). Additionally, the determinant factors of internationalization in this area presents an unfilled gap in the literature on international entrepreneurship and strategy in emerging economies (Chelliah and Sulaiman, 2010; Chelliah et al., 2010; Senik et al., 2010; Nik Abdullah and Zain, 2011).

Even though SMEs play a major role in the development of the Malaysian economy, issues related to these enterprises remain relatively unexplored, with much research excluding the limitations such as the lack of frameworks, for better understanding of the sector (Osman and Hashim, 2009; Nik Abdullah and Zain, 2011). Most emphasized the observing and reporting of specific characteristics of SMEs, ignoring issues such as factors that can influence their performance (Sim, 1994; Hashim and Abdullah, 2000). Hashim and Abdullah (2000a) also reported little research attention was given to the impact and effect of government support programmers to these enterprises in Malaysia.

In view of the significant contribution of SMEs in Malaysia and the lack of clear conclusions towards their development, this study focuses on such enterprises with

the aim of helping and guiding both businesses and the government to build competitive enterprises in the international market.

1.2 Research Objectives

The general purpose of this research is to explore the relationship between internationalization and firm performance in the context of small and medium-sized enterprises in Malaysia.

The specific objectives of this study are to:

1. Investigate the effects of entrepreneurial orientation, global mindset, network relationships and government support on internationalization.
2. Analyze the effects of internationalization on firm performance.
3. Examine the mediating effects of internationalization on the relationships between entrepreneurial orientation, global mindset, network relationships and government support, and firm performance.

1.3 Research Questions

Since this research is developed to better understand the nature of internationalization among Malaysian SMEs, the research questions of this study are:

1. What are the factors influencing the internationalization of SMEs in Malaysia?

2. Does internationalization mediate the relationships between entrepreneurial orientation, global mindset, network relationships government support and firm performance?

Four specific research questions then follow:

1. What is the effect of entrepreneurial orientation, global mindset, network relationships and government support on internationalization?
2. What is the effect of entrepreneurial orientation, global mindset, network relationships and government support on firm performance?
3. What is the effect of internationalization on firm performance?
4. Does internationalization mediate relationships between entrepreneurial orientation, global mindset, network relationships, government support, and firm performance?

1.4 Significance of the Study

This study identifies several gaps in prior research in international entrepreneurship as highlighted by various researchers. First, much work has focused on relatively young high-technology industries located in developed countries with little emphasis on traditional industries (e.g., Bloodgood et al., 1996; Autio et al., 2000; Zahra et al., 2000; Busenitz et al., 2000; Bruton et al., 2008; Keupp and Gassmann, 2009; Coombs et al., 2009; Senik et al., 2010; Coviello et al., 2011), thus

knowledge on international entrepreneurship in emerging economies is quite limited (Kiss et al., 2012). This present study investigates a sample of Malaysian SMEs in an emerging economy with a focus on young and established firms, traditional, low-technology and high-technology industries to determine if the results are comparable with those from developed countries.

Second, past research in international entrepreneurship focused on financial outcomes of internationalization such as net income or return on assets and largely ignored its non-financial outcomes (Zahra and George, 2002). This research utilizes both financial and non-financial outcomes to link internationalization with firm performance so as to justify the outcomes of internationalization.

Third, as most studies emphasized manufacturing firms, there is a lack of service sector research or comparative research within and across sectors (Zahra and George, 2002; Coviello and Jones, 2004). Few studies have focused on service industries (Erramillia and D'Souza, 1993; Moblang, 1995; Abdul-Aziz and Wong, 2010) which are historically understudied (Erramilli, 1990, 1992; Clark et al., 1996; Chadee and Mattsson, 1998; Clark and Rajaratnam, 1999; Samiee, 1999; Davis, 2004). Knowledge about particular organizations is quite new and limited (Samiee, 1999), while the agribusiness sector has also been neglected by researchers (Crick and Chaudhry, 2000; Kevin, 2005). This research contributes to greater diversity in the industry scope by exploring three main industries i.e. manufacturing, service and

agriculture in emerging economies as recommended in the literature (Zahra et al., 1999). The aim is to contribute to the literature in confirming whether theoretical perspectives developed in mature market contexts are valid in emerging economies. Specifically, it aims to ascertain clear international entrepreneurship patterns and outcomes.

Fourth, the field of international entrepreneurship is fragmented, inconsistent and lacks common theoretical integration, resulting in uncertain progress (Keupp and Gassmann, 2009; Coombs et al., 2009; Jones et al., 2011). Essentially, the research lacks a unified framework that connects the antecedents, types, and outcomes of internationalization pursued by new ventures and established companies (McDougall and Oviatt, 2000; McDougall, 1999; Young et al., 2003; Georgiou et al., 2005; Dimitratos and Jones, 2005; Jones and Coviello, 2005; Jones et al., 2011). Therefore, this study used a unified framework that connects the antecedents, types, and outcomes of internationalization and thus provides a comprehensive view of the internationalization of Malaysian SMEs.

Fifth, this study draws on prior research that presumed that international entrepreneurship is indicated by simple measure of a firm's international sales revenues (McDougall, 1989; McDougall and Oviatt, 1996; Bloodgood et al., 1996; Reuber and Fischer, 1997; Roberts and Senturia, 1996). Specifically, this study incorporates a percentage of the company's sales from international operations, a

percentage of the company's profit from international operations, the number of company's international markets and the duration of time involved international operations as a more accurate form of measurement.

Sixth, extending on past studies that drew conclusions based on case studies or a small sample of respondents (Autio et al., 2000; Bloodgood et al., 1996; McDougall and Oviatt, 1996; Tiessen and Merrilees, 1999; Coviello and Jones, 2004; Chelliah and Sulaiman, 2010), the conclusions of this study are based on a larger sample size of 237 respondents.

Seventh, strategic management and entrepreneurship researchers have recognized the importance of external environment on firms' various strategic choices (Boyd et al., 1993; Zahra et al., 1997; Preece et al., 1999; Zahra and Bogner, 2000; Jones and Coviello, 2005; Oviatt and McDougall, 2005; Szyliowicz and Galvin, 2010). With little research attention on the impact and effect of government support programmers to the SMEs in Malaysia (Hashim and Abdullah, 2000a), this study showcases a better model to explain the relationships between internationalization and firm performance of these enterprises through the integration of external environment factors in terms of government support.

Eighth, if prior research does not help us to fully understand the determinants factors of internationalization of SMEs in emerging economies (Chelliah and Sulaiman, 2010; Chelliah et al., 2010; Senik et al., 2010; Nik Abdullah and Zain, 2011), this study sheds light on the relationships between entrepreneurial orientation, global mindset, network relationships and government support as the determinants factors of internationalization of SMEs in Malaysia.

Finally, this study has vital business implications in the form of best practices for Malaysian SMEs for improving performance in international markets. The government may use findings from this study to create or modify policies and regulations that should enhance international competitiveness of SMEs in Malaysia.

1.5 Organization of the Thesis

The thesis is organized into seven chapters. Chapter 1 begins with an introduction to the background of the study. It then describes the specific research objectives, research questions and significance of the study.

Chapter 2 presents a review of the literature that connects entrepreneurial orientation, global mindset, network relationships and government support to internationalization and firm performance.

Chapter 3 provides an overview of SMEs in Malaysia, with discussions on the definition of SMEs, the development of Malaysian SMEs and their performance and challenges faced.

Chapter 4 details the proposed conceptual research model of this study. The proposed model is based on the international entrepreneurship conceptual model advanced by Antoncic and Hisrich (2001). The research hypotheses of this study are consequently developed based on the proposed conceptual research model.

Chapter 5 describes the research design and methodology used to investigate the research hypotheses. It outlines the study's field survey design, sampling plan, questionnaires, data collection process and data analysis approach.

Chapter 6 reports the empirical results of the study. It discusses the data inspection process such as data coding audit, normality assessment, validity assessment and non-response bias testing. The data analysis begins with factor analysis and is followed by confirmatory factor analyses to estimate measurement models for the study's six main constructs. This then continues with structural equation modeling to test the hypotheses of this study.

Chapter 7 concludes the thesis by discussing the research results and provides recommendations to further improve the performance of SMEs in Malaysia.