CHAPTER 2

LITERATURE REVIEW

2.0 Summary

Chapter two reviews existing literature on the three set of variables involved in this study and the relationships between them. The three variables are: (1) Internationalization; (2) Determinants of Internationalization (organizational and environmental characteristics); and (3) Firm performance. Besides, entrepreneurial orientation, global mindset, network relationships and government support are discussed as the factors that influence internationalization and performance. Internationalization theories and models are described and the chapter concludes with an integrative conceptual model which is used as a guide line to construct the proposed theoretical framework for this study.

2.1 Internationalization

Internationalization has become one of the major themes in international entrepreneurship research from a variety of viewpoints, including: organization theory, marketing, strategic management, international management, and small business management (Ruzzier et al., 2006; Coombs et al., 2009). Its significance has been growing due in part to increased globalization and hyper-competition (Antoncic and Hisrich, 2001). Issues such as international decision making and management, the development of international activities, and factors favoring or disfavoring internationalization have been researched both for large as well as small organizations (Miesenbock, 1988; Johanson and Mattson, 1993; Ruzzier et al., 2006; Spence and Crick, 2006; Tuppura et al., 2008; Fernhaber et al., 2008; Yang et al., 2009; Chelliah and Sulaiman, 2010; Nik Abdullah and Zain, 2011).

The past decade has seen a marked increase in interest in the internationalization activities of SMEs (Coviello and McAuley, 1999; Nik Abdullah and Zain, 2011). The strategies used by such enterprises to enter and compete in international markets have been of particular interest to international business scholars (Bell et al., 2004; Calof and Viviers, 1995; Abdul Talib, 1997; Abdullah, 1997; Zulkifli and Jamaluddin, 2000; Westhead et al., 2001; Wolf and Pett, 2000; Sim and Pandian, 2003; Thai and Chong, 2008; Ahlstrom et al., 2008; Saini and Budhwar, 2008; Pangarkar, 2008). Moreover, research in the internationalization of SMEs is often viewed alongside emerging research interest in international entrepreneurship (Coviello and Munro, 1995; Crick and Jones, 2000; Knight and Cavusgil, 2004, McDougall, 1989).

Internationalization is of vital importance for various countries due to its contribution to economic growth (Jaffe and Pasternak, 1994) and the country's well being and international reputation (Dichtl et al., 1994). Particular interest in this area has been given to export performance, mainly in terms of such correlates as: firm size (Culpan, 1989; Walters and Samiee, 1990; Ali and Swiercz, 1991; Agarwal and

Ramaswami, 1992; Bonaccorsi, 1992; Erramillia and D'Souza, 1993, Berra et al., 1995; Piatti and Vitali, 1995; Kohn, 1997), firm age (Nakos et al., 1998), strategy (Baird et al., 1994), perceptions (Jaffe and Pasternal, 1994), orientations (Dichtl et al., 1994), international experience (Reuber and Fischer, 1997), attitudes (Donthu and Kim, 1993; Bijmolt and Zwart, 1994; Ogbuehi and Longfellow, 1994), commitment (Donthu and Kim, 1993; Cavusgil and Kirpalani, 1993) and other characteristics of managers (Nakos et al., 1998), organizational characteristics and organization culture (Holzmuller and Kasper, 1991), product characteristics (Beamish et al., 1993; Katsikeas et al., 1997), distribution and marketing focus characteristics (Beamish et al., 1993) and industry environment (Tybee, 1994).

Other important issues within this area of studies include: the role of networks for internationalization (Hara and Kanai, 1994; Coviello and Munro, 1995; Zafarullah et al., 1998), international joint ventures (D'Souza and McDougall, 1989; Barrett, 1992; Au and Enderwick, 1994), alliances (Welch, 1992; Hansen et al., 1994), export information (Cafferata and Mensi, 1995; McDowell and Rowlands, 1995; Chaudhry and Crick, 1998), relationships with suppliers (Jones and Kustin, 1995), international channels choice decisions (Ramaseshan and Patton, 1994), governmental export policies and programmes (Terpstra and Yu, 1992; Czinkota, 1994; Ghauri and Herbern, 1994; Levie, 1994; Korhonen et al., 1996; Moini, 1998; Weaver et al., 1998), international transfer of technology (Balachandra, 1996; buckley, 1997), innovativeness (Boter and Holmquist, 1996) and diffusion of innovations (Acs et al., 1997), export stimuli (Caughey and Chetty, 1994), personal and personnel adjustments (Wright, 1993), and export financing (Tannous and Sarkar, 1993).

To many, internationalization is the key to a firm’s growth (Peng and Delios, 2006; Nik Abdullah and Zain, 2011). The need to internationalize has become increasingly important due to; the organizations’ self-interest, the belief that their position in the home market is threatened, foreign business opportunities, and also the impact of various external events and forces (Luostarinen, 1979; Hisrich et al., 2010; Nik Abdullah and Zain, 2011; Scarborough et al., 2012). Zahra et al. (2005a) suggested varying motivations exist for entrepreneur to internationalize their operations. Among the motivating factors that influence entrepreneurs in entering overseas markets include market expansion, increased profit and exposure to new ideas. However these motivations have been overlooked in past empirical research, generating a serious gap in international entrepreneurship research.

International expansion is important for SMEs that traditionally have a small financial base, a domestic focus and a restricted geographic scope (Barringer and Greening, 1998). The significance of expansion for SMEs is also reflected in their emerging role in international markets (Oviatt and McDougall, 1994, 1999a). Current studies have placed considerable emphasis on the antecedents and the internationalization process of SMEs but the performance impact of internationalization on the SMEs remains under-explored (Zahra and George, 2002).

Local researchers observed that the determinants of internationalization of Malaysian SMEs remain an unfilled gap, specifically the literature linking international entrepreneurship and strategy in emerging economies (Chelliah and Sulaiman, 2010; Chelliah et al., 2010; Senik et al., 2010; Nik Abdullah and Zain, 2011). Generally, the issues are related to the patterns of internationalization (Andersson et al., 2006), the impact of networking on Malaysian SMEs internationalization (Zain and Ng, 2006; Senik et al., 2007), the role of the Malaysian government as well as business strategies (Hashim and Hassan, 2008). Fragmentations in the above studies show that the determinants of internationalization are not fully understood in Malaysia, thus providing impetus to explore these issues in greater detail.

2.1.1 Definition of Internationalization

Internationalization as a term is comprehensively used in the literature and is a subject that has been extensively studied (Chetty, 1999). However, internationalization is not a uniformly defined concept and cannot be completely explained by a single theory (Welch et al., 1988; Coviello, 1999). As suggested by Chetty and Campbell-Hunt (2003), internationalization is better explained through an integrated approach. Some of the different definitions of internationalization are presented in Table 2.1.

Based on Table 2.1, research has mainly focused on SMEs internationalization from the point of view of the firm's international activities or operations by using product, operations, and market analyses (e.g. Luostarinen, 1979; Javalgi et al., 2003; Korsakien and Tvaronaviien, 2012) or network analyses (e.g. Johanson and Mattson, 1993).

Some small firm research tend to suggest that the process of internationalization is evolutionary (Luostarinen, 1979; Johanson and Wiedersheim-Paul, 1975) through which companies become progressively more committed to, and involved in, international activities. At a certain point though, it can also become inverted and result in de-internationalization (Calof and Beamish, 1995). Welch and Luostarinen (1993) defined SMEs internationalization as *"the process of increasing involvement in international operations",* a process which has often been understood as gradual and sequential, comprising several stages.

Table 2.1: Definitions of Internationalization

Author	Definition	Focus
Welch and Luostarinen (1993)	Internationalization is the outward movement of a firm's international operations.	Process, firm's operations
Calof and Beamish (1995)	Internationalization is the process of increasing involvement in international operations.	Process, firm's operations
Johanson and Mattson (1993)	Internationalization is the process of adapting a firm's operations (strategy, structure, resources etc.) to international environments.	Process, firm's operations
Johanson and Vahlne (1990)	Internationalization as a cumulative process in which relationships are continually established, developed, maintained and dissolved in order to achieve the firm's objectives.	Relationships, process
Lehtinen and Penttinen (1999)	Internationalization as developing networks of business relationships in other countries through extension, penetration and integration.	Networks, relationships
Lehtinen and Penttinen (1999)	Internationalization concerns the relationships between the firm and its international environment, derives its origin from the development and utilization process of the personnel's cognitive and attitudinal readiness and is concretely manifested in the development and utilization process of different international activities, primarily inward, outward and cooperative operations.	Relationships, firm's operations, process, international environment
Ahokangas (1998)	Internationalization is the process of mobilizing, accumulating and developing resource stocks for international activities.	Resources, process
Javalgi, Griffith and White (2003)	Internationalization is a process through which a firm moves from operating in its domestic marketplace to international markets.	Process, firm's operations
Korsakien and Tvaronaviien (2012)	Internationalization is the expansion of a firm's operations into foreign markets.	Process, firm's operations

From a network perspective, Johanson and Mattson (1993) described internationalization as *a "cumulative process, in which relationships are continually established, maintained, developed, broken and dissolved in order to achieve the objectives of the firm"*. However, this view is somewhat fragmented as it focuses more on relationships. Assuming that SMEs work within their natural contexts, the views of Johanson and Vahlne (1990) developed from Johanson and Mattsson (1993) are more promising. They defined internationalization as the *"process of developing networks of business relationships in other countries through extension, penetration, and integration".*

Another definition by Lehtinen and Penttinen (1999) which summarizes the fundamental characteristics of the internationalization process is based on the Nordic research findings. Their definition includes two concepts frequently used in internationalization perspectives, namely international orientation and international commitment, thus representing an evaluative dimension.

In general, the overall research focus has moved from their definition and analyses in terms of international activities to the resources based required for internationalization. Utilizing the resources-based view, Ahokangas (1998) offered a definition of the internationalization of SMEs in terms of resources within the natural context (e.g. within a firm's network). Accordingly, internationalization can be viewed as mobilizing unique and interdependent resource stocks that enable and contribute to the firm's internationalization activities within its natural context.

The most recent definition by Javagi et al. (2003) stated that internationalization is *"a process through which a firm moves from operating in its domestic marketplace to international markets"*. Similarly, Korsakien and Tvaronaviien (2012) also focused on process and the firm's operations and defined internationalization as *"the expansion of firm's operations to foreign markets"*.

This implies that internationalization involves, first, inward and outward activities (Calof and Beamish, 1995; Lehtinen and Penttinen, 1999), second, adapting the firm's operations (strategy, structure, resources etc.) to international environments (Johanson and Vahlne, 1990; Johanson and Mattson, 1993; Ahokangas, 1998; Lehtinen and Penttinen, 1999; Javagi et al., 2003; Korsakien and Tvaronaviien, 2012), and third, to achieve the firm's objectives (Johanson and Vahlne, 1990). Thus, based on the above definitions, this thesis defines internationalization as:

> *"The process by which firms move from operating in domestic market to foreign markets by adapting the firms' operations, strategies, structures, and resources to the foreign environment in order to achieve the firm's objectives".*

2.2 Internationalization Theories and Models

The practice of internationalization has been developed since its early forms outlined in biblical records, however, formal scientific research exploring the possible causes and effects of internationalization have been credited to Adam Smith (1776) who explained his theory of absolute advantage, in his seminal work: The wealth of nations (Mtigwe, 2006). This classical work viewed the nation as the unit of analysis and it was not until the 1950s after the growth of the post-war multinational corporation, that this classical view began to lose its appeal and prominence moved to the firm as a unit of analysis.

Despite being the subject of wide-ranging research enquiry for more than 50 years, there appears to be no universally accepted theory and model of internationalization until today (Bilkey, 1978; Toyne, 1989; Leounidou and Katsikeas, 1996; Chandra and Newbury, 1997). Ford and Leonidou (1991); Dalli (1994); Ramaswamy et al. (1996) suggested that this may be attributed to the simplistic and the static nature of the theoretical models that do not have enough variables to explain such a complex and dynamic phenomenon. Moreover, Sullivan (1994) posited that the defectiveness of the methodological and conceptual frameworks have led to; *"disjointed and inconclusive…partially tested or untested propositions and a segregation of the theory-building process from the hypothesis testing phase of research. Consequently we are unable to create a cumulative* *structure of theoretical, derived and empirical concepts that provide purpose to subsequent studies".*

But, constructive progress toward the development of foundation internationalization theory has achieved momentum by the recognition that any sound theory of internationalization has to consider the behavior of the small entrepreneurial firm that for decades was not considered self- sufficient to effectively compete on the global market. Yet, small businesses account for between 75% - 99% of all businesses in most modern economies and thus, their functions in both the domestic economy and in international business is much greater than was previously recognized (Prefontaine and Bourgault, 2002).

From the individual firm's perspective, internationalization research can be found in the behavioral theory of the firm proposed by Cyert and March (1963) and also in different decision-making theories. Alternatively, from the market perspective, trade theories are also able to provide understanding of internationalization research.

Havnes (1994, cited in Ahokangas, 1998) suggested that any models of small firm internationalization can represent either a market, firm or entrepreneurship point of view. The market point of view of internationalization is mainly restricted to studies on internationalization or diversification strategies of large firms conceived within the context of strategy study with roots in economics (e.g. Dunning, 1988; Mahoney and Pandian, 1997). From the firm point of view, which includes the stage models of internationalization, the bulk of available literature centres on small and medium enterprises internationalization while studies based on the entrepreneurship point of view are rare (e.g. Cavusgil and Naor, 1987).

2.2.1 Foreign Direct Investment

Early in the new decade, Hymer (1960) finished his pioneering doctoral work on the foreign direct investment behavior of multinational firms, and this novel work would serve as a firm foundation for future foreign direct investment research (Calvet, 1981). Hymer (1960) and the rest of the foreign direct investment theories after him, acknowledged the existence of market imperfections in the form of: exchange rate disequilibria, unsatisfied foreign demand for a firm's offering, home or host government incentives to internationalize, and market failures in the form of a foreign market's failure to transfer critical and market knowledge, as providing the rationale for the internationalization of a firm (Calvet, 1981).

2.2.2 Monopolistic Advantage

Monopolistic advantage theory suggested that multinational enterprises be present because a firm has unique sources of superiority over foreign firms in their own markets (Hymer, 1976, cited in McDougall et al., 1994). These advantages, for example superior ability, belong to the multinational enterprises and cannot be acquired by other firms. Multinational enterprises have superior knowledge in the form of superior manufacturing processes, a brand name, differentiated products, organizational talents, or patented technology (Hymer, 1976, cited in McDougall et al., 1994). Once the firm has developed this superior knowledge, it can utilize this advantage abroad at virtually no additional cost over that of exploiting that advantage in the home market (Caves, 1971, cited in McDougall et al., 1994).Local entrepreneurs that have to pay all the cost of developing this knowledge, are consequently unable to compete with the foreign firms regardless of their advantage in local market knowledge.

2.2.3 International Product Life Cycle

Vernon (1966) and later Wells (1968) proposed that international trade patterns were similar to the product life cycle patterns in the domestic firm. The exploration for low labor costs and a cost advantage were the influential factors of international production. According to the product life cycle view of international business, firms will move continually between different locations to get and maintain their cost advantage. According to the international product life cycle theory the original country has a comparative advantage in the production of a specific good, but this advantage is subsequently lost to lower cost producers as the product becomes standardized (Sundaram and Black, 1995). Similar to previous models and theories, the international product life cycle theory also has limited applicability, specifically in a by-gone era.

2.2.4 International Portfolio

According to International Portfolio Theory, decisions to engage in international business investments arise out of the aim to maximize the flow of profits while minimizing risk exposure to the economic shocks in the domestic market by investing in different foreign markets (Rugman, 1971; Rugman and Verbeke, 1992). An interesting feature of the strategy perspective of international business arises from Porter (1990) and Ohmae (1995) who used the nation and regional economies as a unit of analysis, respectively. The superstructures of the industry, the nation and the regions are seen as the source of a firm's international competitive advantage.

Conversely, there is contradicting evidence arising from studies on international portfolio diversification regarding the gains of diversification to individual firms (Calvet, 1981). Notably, changes in currency values and foreign market taxes on dividends have the effect of cutting or erasing foreign diversification gain. Furthermore, fixed assets positioned in foreign countries can impose certain risks on the international firm that does not exist in the domestic market, so much so that the gains of diversification may be non-existent or negative (Globerman, 1986). Even though the international portfolio theory in itself is unable to explain internationalization, it has greatly enhanced our understanding by highlighting specific underlying strategic motives that firms consider prior to embarking on internationalization.

2.2.5 Internalization

Internalization theory argued that firms seek to develop their own internal markets when transactions can be at a lower cost within the firm and will continue until the benefits and costs of additional internalization are equated to the margin (Buckley and Casson, 1993). Internalization can be engaged in the form of vertical integration creating new operations and activities, which had been carried out by intermediate markets, under the ownership of the firm particularly when natural markets are imperfect or missing. Multinational enterprises will be created as a result of the internalization of transactions across national borders. The antecedents to market internalization include the process of information gathering and assessment that guide management to determine the best foreign expansion approach.

Prior research suggests that internalization theory has several shortcomings that hider its value in explaining international business behavior. First, this theory is embedded in the reasoning that market failure brings about internationalization of the firm and that market success contributes a major role in a firm's decision to internationalize. Second, arguments that cost minimization is the principal reason for internationalization is a gross oversimplification and even misrepresentation of the real world dynamics of international business behavior (Jones, 1996).

2.2.6 The Eclectic Paradigm

The eclectic paradigm theory, also known as OLI (ownership, localization and internalization) paradigm, is based on internalization theory that explains the different types of international production and also the selection of a country for foreign direct investments. Dunning (1988) emphasized that the internationalization of economic activity is determined by the three types of advantages. First, ownership advantages (firm resources), which refer to the company and is related to the accumulation of intangible assets, technologies capacities or product innovations. Second, the internalization advantages (relational factors), which refer to the capacity of the firm to manage and coordinate activities internally in the value-added chain. Third, location advantages (host country factors), that refer to the institutional and productive factors existing in a particular geographical area. These occur when the conditions are conducive to combining products manufactured in the home country with irremovable factors and intermediate products of another location.

The rationale for firm internationalization according to Dunning (1981) is that *"the more a country's enterprises possess ownership-specific advantages, the greater the incentive to internalize them; and the more these enterprises find it profitable to exploit the advantages outside their national boundaries, the more* *likely they are to engage in foreign direct investment…. A country's involvement in international direct investment then becomes a function of the ownership and internalization advantages of its enterprises relative to those of other nationalities and its location-specific endowments relative to those of other countries".*

This theory has helped in better understanding the motives for internationalization. Yet, it is incapable of presenting an integrated view for the explanation and prediction of entry mode choice. It has also left unanswered the question as to why two firms operating in a similar business and with equal ownership internationalize. In addition, the eclectic paradigm theory disregards the effects of the home country and internal factors such as a firm's assets and product nature on the decision to enter foreign markets (Ekeledo and Sivakumar, 2004).

2.2.7 Resource-based

The resource based view, which had been developed within the field of strategic management focuses on sustainable and unique costly-to-copy attributes of the firm as the sources of economic rents, i.e. as the basic drivers of the firm and sustainable competitive advantage required for internationalization and superior financial performance (Lawrence and Lorsch, 1967; Stone and Brush, 1996; Teece et al., 1997). A firm's capabilities in obtaining and maintaining profitable market positions depend on its capacity to gain and defend advantageous positions with regard to the resources important to the firm (Conner, 1991). Barney (1991) posited that a firm's success in the market not only depends on environment factors but also on the firm's functions and influence on the environment. He suggested that critical resources needed for internationalization should be valuable, rare, imperfectly imitable, and not substitutable. In addition Grant (1991) suggested that resources must capture durability, transparency, transferability, and replicability.

While the resource-based theory is considered ideal by some for explaining a firm's international expansion, yet to some extent, it is unable to explain the choice of some entry mode strategies (Ekeledo and Sivakumar, 2004). Furthermore Malhotra et al., (2003) argued that it does not appear able to measure various intangible assets.

2.2.8 Uppsala Internationalization

The Uppsala internationalization model, developed by Johanson and Vahlne (1997, 1990) is rooted in the observation that internationalization of the firm is a process of increasing a company's international involvement as a result of different types of learning. They suggested that the general and experiential market knowledge and resource commitment of firms (state aspects), affect commitment decisions and current business activities (change aspects). The change aspects will then increase market knowledge and encourage further resource commitment in foreign markets in the following cycle (Anderson, 1993). The Uppsala model showed how firms increase their international commitment in small incremental steps within those foreign markets in which they presently operate. Soon after, these firms will enter new markets located at a greater psychic distance. As a result, the knowledge that the firms gain in operating international operations impacts internationalization by influencing the entry-mode and country-market selections.

Several scholars have criticized the Uppsala internationalization model as being deterministic (Reid, 1981) and that if the firms were to develop following the model, individuals would then have no strategic choices (Andersson, 2000). Furthermore, many firms nowadays do not follow the traditional pattern of internationalization because some firms internationalize at birth which is referred as international new ventures (McDougall, 1994a; Oviatt and McDougall, 1994), born global (Madsen and Servais, 1997), and global start-ups (Oviatt and McDougall, 1995).

2.2.9 Network

A firm's internationalization within a process approach can be analyzed by using networks as the starting point as this approach presents firms as embedded actors in business networks (Johanson and Mattsson, 1993; McAuley, 1999). By using the Uppsala model, Johanson and Vahlne (1990) continued with an examination of the internationalization process by applying a network point of view. The extended model engages investments in networks that are new to the firm, whereby penetration involved developing positions and increased resource commitments in established networks. Integration refers to the coordination of different national networks and whether the relationships between firms are seen as a network. It is argued that firms internationalize due to the fact that firms in their international networks do so.

The Johanson and Mattson (1993) model highlighted gradual learning and the development of market knowledge through interaction within networks. The firm's position in the network can be considered from both micro (firm-to-firm) and macro (firm-to-network) perspective. With the combination of these two elements Johanson and Mattsson (1993) recognized four stages of internationalization: the early starter, the late starter, the lonely international, and the international among others. They argued that internationalization of the firm means that the firm establishes and develops positions in relation to other counterparts in a foreign network. The internationalizing firm is usually involved in a network which is mainly domestic and further develops business relationships in networks in other countries. The main issue that arose regarding the network approach, one that seems neglected in most process-oriented research, is the strategic position and influence of individuals, specifically entrepreneurs, in the internationalization of SMEs (Ruzzier et al., 2006).

2.2.10 International Entrepreneurship

International entrepreneurship theory along with network theory represents state-of-the-art knowledge in international business thought. This theory represents the two extremes of incremental theory and network theory. The former focuses on large multinational firms with slow progress in international markets while the latter focuses on very rapidly internationalized small firms. International entrepreneurship theory argues that the individual’s and firms’ entrepreneurial behavior is the foundation of foreign market entry (Mtigwe, 2006). While some authors argued that network theory and international entrepreneurship theory are synonymous, yet there are significant differences. International entrepreneurship can and exists outside formalized networks. In Southern Africa for example, most small firms expand into international business without the assistance of partners in a formalized network (Mtigwe, 2006). Therefore, there are two methods through which an entrepreneurial firm can internationalize: through a formal network or without the assistance of a formal network. Moreover, internationalization through networks may be the exception rather than the norm or may be at least industry-specific. Therefore, international entrepreneurship theory and network theory should be viewed as complementary theories rather than synonymous theories.

However, some scholars have argued that international entrepreneurship is a far more inclusive phenomenon that cannot be understood in the perspective of small firm behavior alone. More so, it cannot be viewed from the perspective of the ‘Born-global' variety of small firms alone, on which the bulk of present international entrepreneurship literature is based. Thus, Zahra and George (2002) suggested that this has led to the exclusion of related theoretical contributions and proper articulation of what international entrepreneurship is and what it is not. In addition, they argue that this limited focus of international entrepreneurship is not warranted because large corporations frequently demonstrate entrepreneurial behavior that is identical to those of small firms.

2.3 Dimensions of Internationalization

Sullivan (1994) contributed to the development of SMEs internationalization through a comprehensive study which is representative, diverse and helpful for the development of meaningful measures of internationalization. The study concluded that foreign sales, as a percentage of total sales, have been extensively used to measure internationalization. Similarly, Contractor et al. (2003) measured internationalization through the eigenvector-weighted sum of foreign sales/total sales, number of foreign employees/number of total employees and number of foreign offices/number of total offices. In a separate research, Reuber and Fischer (1997) considered three components for measuring the internationalization of SMEs which include foreign sales as a percentage of total sales. This is a standard, single measure of the degree of internationalization, encompassing the percentage of the firm's employees that spend over 50 percent of their time on international activities to capture the structural aspects of SMEs, degree of internationalization and the geographic scope of sales of the firm by measure of the amount of sales from different countries. Therefore, it can be concluded that past researchers focused on three dimensions of internationalization, namely the extent, speed, and scope of internationalization (Zahra and George, 2002).

2.3.1 Extent or Degree of Internationalization

Most prior studies examined the extent or degree of internationalization (Zahra et al, 2000; Burgel and Murray, 1998; Reuber and Fischer, 1997; Karagozoglu and Lindell, 1997; McDougall and Oviatt, 1996). In general, the extent of internationalization was measured by the percentage of a firm’s sales generated from foreign markets. However, several researchers applied more than one factor in measuring this variable. For example, Sullivan (1994) used foreign sales as a percentage of total sales, foreign assets as a percentage of total assets, and foreign subsidiaries as a percentage of total subsidiaries to measure the degree of internationalization. Alternatively, Reuber and Fischer (1997) measured the degree of internationalization of Canadian software firms using the percentage of foreign sales, and the percentage of the employees that spend more than 50 percent of their time on international activities.

2.3.2 Speed of Internationalization

Some studies examined the speed of internationalization (Burgel and Murray, 1998; Lindquist, 1997; Fontes and Coombs, 1997; Robert and Senturia, 1996; Reuber and Fischer, 1997). These studies defined speed of internationalization as the duration from the inception of the firm to when the firm generates foreign sales. Reuber and Fischer (1997) described the duration the firm operated domestically before generating any foreign sales as a “delay” and treated it as international behavior of the firm. In addition, Robert and Senturia (1996) observed the timing of the initiation of global activities as the speed of internationalization.

2.3.3 Scope of Internationalization

Finally, the scope of internationalization is measured by the number of foreign markets within which the firm operates. These foreign markets are referred by the countries or by the regions (Zahra et al., 2000; Burgel and Murray, 1998; Reuber and Fischer, 1997; Roberts and Senturia, 1996). Zahra et al. (2000) measured the scope on internationalization by the number of foreign countries to which the firms sell their products. Likewise, Reuber and Fischer (1997) viewed the geographic scope of sales as the scope of internationalization.

This present study measures internationalization using four different measures: a percentage of a company’s total sales from international operations, percentage of a company's previous year's profit from international operations, the total number of a company's international markets and the duration the company has been actively involved in international operations.

2.4 Determinants of Internationalization

Current studies suggest that several internal and external factors determine the internationalization of SMEs (Wright et al., 2007; Prefontaine and Bourgault, 2002). Internal factors comprise firm specific resources, foreign business experience, networking and strategic considerations that can be managed by the firms. Che Senik et al. (2010) found that the influential factors for SMEs internationalization in the Malaysian manufacturing industry include firm characteristics, and motivational aspects. Furthermore, their study disclosed that the most influential factor for SMEs internationalization is networking. Several studies also indicated that network relationships are important determinant factors for small and medium sized enterprises internationalization (Coviello, 2006; Coviello and Martin, 1999; Coviello and Munro, 1995, 1997; Moen et al., 2004; Sharma and Blomstermo, 2003; Zain and Ng, 2006).

External factors include country and industry factors which are normally beyond the firms' control (Ekeledo and Sivakumar, 1998, 2004; Koch, 2001). For example, Hashim (2000b) posited that the success of SMEs was influenced by three factors; entrepreneurial characteristics, the organizational context and the external environment.

Yang et al. (2009) suggested that firm internationalization was influenced widely by industry and resource-based considerations that were inherently shaped by domestic and international institutional frameworks governing these endeavors. In Malaysia, besides the support and assistance from the government, the business strategies of the SMEs further influenced the development of the SMEs sector (Hashim and Hassan, 2008).

2.4.1 Entrepreneurial Orientation

The concept of entrepreneurial orientation summarizes the firm-level processes, practices, decision-making styles (Lumpkin and Dess, 1996) and strategic orientation (Wiklund and Shepherd, 2003) of an entrepreneurially-oriented firm has become a major construct within the strategic management and entrepreneurship literature (Soininen et al., 2011).

Entrepreneurial orientation can be defined as the willingness of the firms to display proactive and innovative actions and to take calculated risks to create and exploit environment opportunities (Dickson and Weaver, 2008; Kreiser et al., 2002; Covin and Slevin, 1989; Miller, 1983; Miller and Friesen, 1983). Covin et al. (2006)

defined entrepreneurial orientation as a strategic construct whose conceptual domain includes certain firm-level outcomes and management-related preferences, beliefs, and behaviors as expressed among a firm's top-level managers. In addition, Runyan et al. (2008) argued that entrepreneurial orientation is evidenced through visible entrepreneurial tendencies toward innovativeness, pro-activeness and risk taking.

Miller (1983) stated that *"An entrepreneurial firm is one that engages in product market innovation, undertakes somewhat risky ventures, and is first to come up with "proactive" innovations, beating competitors to the punch".* Entrepreneurial orientation has been studied using a multidimensional construct of three to five dimensions. The three commonly cited dimensions of entrepreneurial orientation, proposed by Miller in 1983, are innovativeness, pro-activeness, and risk taking. These three dimensions are part of the eleven "entrepreneurial" dimensions of strategy Miller and Friesen discussed in their 1978 paper.

Lumpkin and Dess (1996) suggested that entrepreneurial orientation needs to add another two dimensions to capture the idea of "beating competitors to the punch" recommended by Miller (1983) to illustrate a firm's tendency towards independent and autonomous action. The two additional dimensions are competitive aggressiveness and autonomy. However, these two dimensions are not widely used by researchers and for the purpose of this study, the original Miller construct of the three dimensions, innovativeness, pro-activeness, and risk taking is used to represent entrepreneurial orientation.

Based on Miller's (1983) statement, several researchers proposed that entrepreneurial orientation be a combination of the three multi-dimensional construct; innovativeness, pro-activeness and risk-taking. Therefore, entrepreneurial orientation involves a willingness to innovate to rejuvenate market offerings, take risks to try out new and uncertain products, services, and markets, and be more proactive towards new marketplace opportunities than their competitors (Covin and Slevin, 1989, 1990, 1991; Wiklund, 1999; Knight, 1997; Miller, 1983; Namen and Slevin, 1993; Zahra and Covin, 1995; Zahra, 1993).

Dimensions of Entrepreneurial Orientation

Innovativeness

Innovativeness can be defined as a firm's tendency to engage in and support new ideas, novelty, experimentation, and creative processes that may result in new products, services, or technological processes (Lumpkin and Dess, 1996). Innovativeness is introduced into an entrepreneurial process as Schumpeter's "creative destruction" process by which wealth is created when existing market structures are disrupted by the introduction of new goods or services that shifts resources away from existing firms and helps new firms to grow (Schumpeter, 1942). Covin and Miles (1999) argued that without innovativeness, entrepreneurship would not exist.

Pro-activeness

Pro-activeness can be defined as a process of anticipating and acting on future needs by the firm's seeking new opportunities that may or may not be related to its present line of operations, by introducing new products or brands ahead of competition, and by eliminating operations that are in a mature or declining life cycle stage (Venkatraman, 1989). Covin and Slevin (1989) expressed the view that firms take uncompromising initiatives to compete with other firms. Pro-activeness illustrate how firms relate to market opportunities in the process of entering a new market or product category; pro-activeness characterizes the process by which firms seize and act upon new opportunities in order to "shape the environment" in an advantageous fashion (Lumpkin and Dess, 1996).

Risk-taking

Risk-taking can be defined as the degree to which managers are willing to make large and uncertain resource commitments that have a substantive chance of costly failure (Miller and Friesen, 1983). From a strategic perspective, risk-taking refers to the firm's propensity to take business-related chances with regard to strategic actions in the face of uncertainty (Richard et al., 2004). According to Baird and Thomas (1985) there are three types of strategic risk-taking such as venturing into the unknown, heavy borrowing, and committing large portions of corporate assets in uncertain environments. Similarly, Lumpkin and Dess (1996) suggested that firms with entrepreneurial orientation are usually typified by risk-taking behavior, such as incurring heavy debt or making significant resource commitments, in the interests of obtaining high returns by seizing opportunities in the marketplace.

Miller (1983) developed a scale to measure the three dimensions of entrepreneurial orientation which was later extended by Covin and Slevin (1986, 1989). However, the scale exhibited several weaknesses and scholars disagreed on the labels for the scale and the concepts it represents (Wiklund, 1998). This present study uses Covin and Slevin's instrument to measure the entrepreneurial orientation of Malaysian SMEs.

Entrepreneurial Orientation and Firm Performance

There has also been increased interest on the relationship between the firm's strategic orientation and firm performance (Madsen, 2007). Entrepreneurial orientation has been acknowledged as one of the most significant factors for a firm's growth and profitability (Zainol and Ayadurai, 2011). Stevenson and Jarillo (1990) indicated that high growth correlates with a firm's entrepreneurial orientation. Hence, growth can be connected with innovativeness, pro-activeness and risk-taking behavior of the firm which refers to entrepreneurial orientation. In a competitive business environment where product and business model life cycles are shortened, such characteristics are positively associated with better performance. Thus entrepreneurial orientation is considered a key component for a firm’s success (Hamel, 2000).

According to Lyon, Lumpkin and Dess (2000) entrepreneurial orientation does influence firm performance. Research in entrepreneurial orientation suggests that increased entrepreneurial orientation is associated positively with financial performance (Covin and Slevin, 1989; Miller, 1983; Zahra, 1993). However, there are arguments over the appropriate intensity of entrepreneurial behavior and the implications that entrepreneurial activities such as risk-taking will have on firm performance (Zahra, 1993). Furthermore, Miller and Friesen (1983) argued that increasing entrepreneurship beyond particular thresholds can harm a firm’s financial performance.

Previous research found a positive relationship between entrepreneurial orientation and firm performance (Jantunen et al., 2005; Wiklund and Shepherd, 2005; Madsen, 2007). Conversely, several studies also indicated such relationships were non-existent (Smart and Conant, 1994). These results may be attributed to the combination of both profitability and growth measures utilized to measure firm profitability (Covin and Slevin, 1989; Wiklund, 1999; Avlonitis and Salavou, 2007). Of late, there have also been a number of studies that purely focus on the specific relationships between entrepreneurial orientation and firm growth which show a positive relationship between entrepreneurial orientation and the firm's growth rate.

Zahra and Covin (1995) found a positive relationship between entrepreneurial orientation and firm performance that increased over a seven-year study. The analysis began in the second year to allow for the control of past performance, illustrating that the standardized regression coefficients of entrepreneurial orientation (from year 2 to year 7) ranged from 0.18 – 0.46 with significance levels ranging from $p < 0.05$ to $p < 0.001$. Wiklund (1999) also indicated a positive relationship between entrepreneurial orientation and firm performance over a two-year study. The first year reported the standardized regression coefficient of 0.16 with $p < 0.05$ whilst the second year reported the standardized regression coefficient of 0.25 with $p < 0.01$. On the contrary, Hart (1992) proposed that entrepreneurial orientation may decrease firm performance under certain conditions, for example, in a situation where there is role imbalance between top management and organizational members. Smart and Conant (1994) found no significant relationships between entrepreneurial orientation and firm performance. These contradictory findings suggested that entrepreneurial orientations may sometimes but not always, lead to superior firm performance.

From the perspective of small firms, researchers suggested that strong positive relationships may exist between entrepreneurial orientation and firm performance since smallness can assist and encourage flexibility and innovation despite limiting competitiveness in other strategic dimensions such as cost leadership or differentiation strategies (Wiklund, 1999; Porter, 1985). Wiklund and Shepherd (2005) found a positive relationship between entrepreneurial orientation and small business performance in Swedish firms, the effect being strongest in stable environments with less access to capital. Furthermore, Swierczek and Ha (2003) reported a positive correlation between innovative and proactive entrepreneurial orientations and firm performance among Thai and Vietnamese SMEs. The standardized regression coefficients ranged from 0.047 to 0.256 with significance levels ranging from $p < 0.01$ to $p < 0.05$.

2.4.2 Global Mindset

A growing number of researchers viewed global mindset, or cognitive capabilities of key decision makers, as important success factors that influence organizational outcomes (Gupta and Govindarajan, 2002; Murtha et al., 1998; Harveston et al., 2000; Jeannet, 2000; Levy, 2005). To be a global entrepreneur requires a different mindset and to be successful, entrepreneurs must see their companies from a global perspective and must instill a global culture throughout their companies that permeates all business activities (Scarborough et al., 2012). This emerging phenomenon reflects the recognition that competitive environments today require a shift in focus from structural and administrative mechanisms to mindset-based capabilities (Bartlett and Ghoshal, 1990).

To better understand the term “global mindset” it is crucial to appreciate the core concept of mindset. The concept of mindset is derived from the fields of cognitive psychology and organizational theory wherein scholars decipher how people and organizations make sense of the world with which they interact (Gupta and Govindarajan, 2002). They defined global mindset as a firm’s or manager’s openness to and awareness of diversity across cultures and markets with a propensity and ability to synthesize across the divides. Similarly, the definition by Guy and Beaman (2003) described it as an individual’s predisposition towards a particular international approach and experience. According to Rhinesmith (1995) a global mindset is a way of being rather than a set of skills. It is an orientation of the world that permits one to view certain things that others fail to see. A global mindset represents the ability to scan the world from a wide perspective, always looking for unanticipated trends and opportunities that may consist of a threat or an opportunity to achieve personal, professional or organizational objectives. Peter Senge (1990) defines mindset as deeply ingrained assumptions, generalizations, or images that influence how individuals understand their surroundings and then take action. Another definition by Paul (2000) described mindset as a set of deeply held internal images and assumptions that individuals develop through a continuous process of learning which, consequently, determines how they perceive and then react to a specific situation. The above definition indicates that the global mindset concept can be used by both individuals and organizations. Specifically, the organizational mindset is just an aggregated mindset of its organizational members interacting with each other.

Further, Perlmutter (1969) and Sullivan (2002) suggested that global mindset can be classified into three mental models, namely, ethnocentric (home country mindset), polycentric (host country mindset), and geocentric (global mindset).

Ethnocentric Orientation

Firms with an ethnocentric orientation centre their attitudinal predispositions on their home country as a single point of reference, to the point of assuming national superiority (Guy and Beaman, 2003). Firms that use this approach normally follow international strategies of maintaining control from the home country and duplicating home country systems and procedures abroad (Kedia and Mukherji, 1999). Specifically, a firm would export their products and services to overseas markets with little or no modification to features, styles, and packaging. This standardized approach generates lower operating costs although they may lose sales to competitors due to low local responsiveness.

Polycentric Orientation

Firms with a polycentric orientation centre their attitudinal evaluations on the host country as their point of reference. Guy and Beaman (2003) argued that this approach reflected the proverb “when in Rome, do as the Romans”. Firms with this form of orientation are likely to adopt multinational strategies that put emphasis on decentralized and autonomous global operations. In this approach, local responsiveness is even more essential than operating costs.

Geocentric Orientation

Firms with a geocentric orientation downplay national and cultural diversity and assume a universal set of values that govern human interaction (Guy and Beamen, 2003). This approach creates a global network and a preference for following a transnational strategy that is integrative and interdependent and is the most attractive approach as it is designed to reduce cultural myopia and increase local responsiveness.

Researchers are of the view that the global mindset of a manager is a prerequisite for early internationalization (Fletcher, 2000; Harveston et al., 2000; Harveston et al., 2002; Knight, 2001; Townsend and Cairns, 2003). Harveston et al. (2002) found that the positive attitude of the manager is a significant factor that differentiates the exporters from non-exporters. Furthermore, Oviatt and McDougall (1995) found that new ventures managed by managers with global visions are able to internationalize speedily and successfully. Knight (2001) observed that rapidly internationalizing firms seem to be more globally oriented than other firms while Nummela et al. (2004) in their study of small and medium-sized Finnish companies in the field of information and communications technology indicated that there was a positive association between global mindset and international performance.

2.4.3 Network Relationships

The significance of network relationships on firms' internationalization behavior has been emphasized in several studies (Ojala, 2008). Research related to SMEs in knowledge-intensive sectors suggested that network relationships between firms or individuals are seen as determinants of internationalization (Coviello, 2006; Coviello and Martin, 1999; Coviello and Munro 1995, 1997; Moen et al., 2004; Sharma and Blomstermo, 2003; Zain and Ng, 2006). Network relationships can assist firms in gaining access to resources, improving their strategic positions, controlling transaction costs, learning new skills, gaining legitimacy, and to cope positively with rapid technological changes (Alvarez and Barney, 2001; Bonaccorsi, 1992; Hitt and Ireland, 2000; Das and Teng, 1998; Gulati, 1995). In addition McDougall et al. (1994) argued that networks assist founders of international new ventures, or born-globals, to identify international business opportunities and also have an influence on the founders' country choices. Subsequently, Wincent (2005) posited that networking within and outside the SMEs' network improves firm's performance.

Also, researchers (Coviello and Martin, 1999; Coviello and Munro, 1995, 1997; Moen et al., 2004; Zain and Ng, 2006) argued that network relationships impact knowledge-intensive SMEs market and entry mode choice. They found that firms' network relationships were seen as the main initiators in the internationalization process as firms followed their networks into foreign markets.

This finding concurs with assumptions in the internationalization network model (Johanson and Mattsson, 1988) that network relationships can act as a bridge to foreign markets.

Axelsson and Easton (1992) defined networks as sets of two or more connected exchange relationships. They suggested that markets are depicted as systems of social and industrial relationships among, for example, customers, suppliers, competitors, family, and friends. In the context of internationalization of SMEs, Zain and Ng (2006) defined network as a firm's management team and employees' relation with customers, suppliers, competitors, government authorities, bankers, families, friends, or any other party that enables a firm to internationalize its business activities. According to Johanson and Mattsson (1988) a firm can build relationships with a variety of actors, including customers, distributors, suppliers, competitors, non-profit organizations, public administration, etc. The diverse types of network relationships for penetrating foreign markets can be categorized into formal or informal types (Birley, 1985; Coviello and Martin, 1999; Coviello and Munro, 1995, 1997; Dubini and Aldrich, 1991; Harris and Wheeler, 2005; Rialp et al., 2005; Westphal et al., 2006), and intermediary (Chetty et al., 2000; Ellis and Pecotich, 2001; Havila et al., 2004; Oviatt and McDougall, 2005).

Formal relationships are related to business activities between two or more actors in the network, informal relationships are related to personal relationships with family members and friends (Coviello, 2006; Coviello and Martin, 1999; Coviello and Munro, 1995, 1997; Harris and Wheeler, 2005; Sharma and Johanson, 1987; Westphal, et al., 2006) and intermediary relationships are related to third parties that facilitate the establishment of the network relationship between buyers and sellers (Ellis and Pecotich, 2001; Havila et al., 2004; Oviatt and McDougall, 2005).

This study defines network relationships as a firm's management team and employees' relations with formal, informal and intermediary networks that enables a firm to internationalize its business activities (Birley, 1985; Coviello and Martin, 1999; Coviello and Munro, 1995, 1997; Dubini and Aldrich, 1991; Harris and Wheeler, 2005; Rialp et al., 2005; Westphal et al., 2006; Chetty et al., 2000; Ellis and Pecotich, 2001; Havila et al., 2004; Oviatt and McDougall, 2005; Zain and Ng, 2006).

Researchers have emphasized the importance of networks to SMEs (Hansen et al., 1994; Hara and Kanai, 1994; Coviello and Munro, 1995; Kaufmann, 1995; Korhonen et al., 1995). Korhonen et al. (1995) discovered that nearly more than half of Finnish SMEs started their internationalization process with inward foreign operations through the import of physical goods or services. They concluded that such inward operations permit international network connections to be established. Coviello and Munro (1995) found that successful New Zealand-based software firms are actively engaged with international networks and outsource many market development activities to network partners. Likewise, Bonaccorsi's (1992) study of Italian SMEs, suggested that access to external resources (through buyer-seller relationships) play a significant role in the firms' internationalization process. A recent study by Ibeh and Kasem (2011) found that networks were crucial in explaining initial internationalization, market selection and internationalization speed of SMEs of Syrian software firms. Moreover, Watson's (2007) research on SMEs in Australia indicated that there was a significant, positive relationship between networking and firm performance.

2.4.4 Government Support

The development of SMEs and diversification of structure over time through employment and output share, output composition, market orientation, and location are related to many factors including the level of economic development and government promotion programs (Tambunan, 2008). Studies also showed increased acceptance of the various functions contributed by SMEs in wider social and economic restructuring (Smallbone and Welter, 2001). Thus, to capture these economic and social benefits, virtually all governments support this sector (Wren, and Storey, 2002). In that vein, Ahmad (2008); Ahmad and Kitchen (2008) observed that Malaysian companies have achieved competitive advantage from technological skills, knowledge capabilities and the government's commitment in supporting the expansion of firms. It was also found that government policies impacted the internationalization path of SMEs (Acs et al., 2001) and the success of entrepreneurs (Spencer and Gomez, 2004).

The most logical way that governments can influence SMEs is through direct support policies and programmes that assist small firms to overcome size-related disadvantages (Smallbone and Welter, 2001). Government support programs in terms of general financial support or preferential treatment for entrepreneurial ventures (Spencer and Gomez, 2004), resources available through government procurement programs (Doutriaux, 1998), tax incentives (Harrison and Mason, 1988), business development assistance (Phillips, 1993), and government export assistance programs (Reynolds, 1997) contribute to the regulatory environment that can assist individuals' entrepreneurial efforts. Abdullah (1999) identified the five aspects according to which the Malaysian government support programmes can be divided into, which are: financial and credit assistance; technical and training assistance; extension and advisory services; marketing and market research; and infrastructure supports.

Hence, this research defines government support as funding, policies and incentives, and contracts and projects in terms of financial and credit assistance, technical and training assistance, extension and advisory services, marketing and market research, and infrastructure supports that can assist individual entrepreneurial efforts (Smallbone and Welter, 2001; Spencer and Gomez, 2004; Doutriaux, 1998; Harrison and Mason, 1988; Phillips, 1993; Reynolds, 1997; Abdullah,1999).

The importance of government support in assisting SMEs has been studied by several researchers. Yusuf (1995) found that government support is one of the contributing success factors for small businesses in the South Pacific. Governments in developing countries give support in terms of providing incentives and infrastructure. Acs et al. (2001) discovered that government policies impact the internationalization path of SMEs in Canada while the most recent research by Kang and Park (2012) indicated that government support through project funding directly and indirectly affects the innovation outputs of small and medium biotechnology enterprises in South Korea. However, Idris (2012) argued that excessive government support will create entrepreneurs with high external locus of control who believe that their success will depend on government support and this in turn, will encourage attitudes of blaming other parties for their failures, unproductiveness and the lack of innovation in developing their business.

2.5 Firm Performance

Studies have indicated that internationalization leads to improved performance of SMEs (Pangarkar, 2008; Lu and Beamish, 2006; Westhead et al., 2001; Hitt et al., 1997; Tallman and Li, 1996) even though empirical evidence reported that this relationship is non-linear (Hitt at al., 1997; Lu and Beamish, 2001).

Of late, scholars have shown increased interested in the performance outcomes of internationalization among SMEs (Majocchi and Zucchella, 2003, Westhead et al., 2001). Westhead et al. (2001) observed that regardless of limitations in financial and human resources, international diversification leads to improved performance among SMEs. However, measuring the performance of organizations is always a complex problem (Lentz, 1981).

2.5.1 Financial Performance

Past research studied the performance outcomes of internationalization from both financial and non-financial perspectives. Even though financial performance indicators are more common, the empirical results yielded mixed findings with respect to the relationship between internationalization and firm performance. Bloodgood et al. (1996) discovered a positive but marginally significant relationship between the extent of internationalization and firm income while McDougall and Oviatt (1996) suggested that there was no relationship between internationalization and return on investment of the firm. In addition, Knight and Cavusgil (2004) posited that an international entrepreneurial orientation influenced the adoption of strategies that led to higher firm performance.

Several researchers argued that organizational performance is a multi-dimensional construct (Combs et al., 2005; Davidsson et al., 2009; Murphy et al., 1996; Venkatraman and Ramanujam, 1986). Due to the complexity of performance of the multi-dimensional construct, Venkatraman and Ramanujam (1986) suggested that the study of firm performance should include multiple, disparate performance measures and described firm performance according to three categories including financial performance, business performance, and organizational effectiveness. Financial performance is an accounting-based measurement that measures profitability of the firm through financial ratios such as return on assets (ROA), return on sales (ROS), and return on equity (ROE). The business performance of a firm refers to market or value-based measures which consist of financial and operational (non-financial) performance and is measured through indicators such as market share, growth, diversification, and product development. In his study, Hart (1992) proposed two types of business performance indicators, firstly, that which is related to growth or shares in existing businesses for example sales growth and market share. The second type is related to the future positioning of the firm such as new product development and diversification. While organizational effectiveness refers to stakeholder-based measurements with indicators such as employee satisfaction, quality and social responsibility.

Financial performances that are commonly used in most management research have been criticized by various scholars. Chakravarthy (1986) reported some of its weaknesses as related to (1) the scope for accounting manipulation; (2) the undervaluation of assets; (3) the distortions due to depreciation policies, inventory valuation and treatment of certain revenue and expenditure items; (4) the differences in methods of consolidating accounts; and (5) the differences due to lack of standardization in international accounting conventions. Furthermore, financial performance measures, either measures of profitability (ROS, ROA) or measures of financial markets, (Market to Book ratio) are unsatisfactory discriminants of excellence.

Some researchers investigated the effects of a firm’s financial status on its internationalization and found that successful past organizational performance created the slack resources required to support international expansion (Zahra and George, 2002). Two important aspects of the financial status of new ventures that were examined in past research are past return on equity and debt leverage. Zahra et al. (2000) found that past return on equity was not significantly associated with firm internationalization while in terms of financial leverage, Bloodgood et al. (1996) indicated a non-significant association with the degree of internationalization. Yet, he discovered the relationship between internationalization and firm income to be marginally significant. In addition, McDougall and Oviatt’s (1996) study used a sample of U.S. new venture manufacturers in the computer and communications industries and reported that higher levels of internationalization (percentage of foreign sales to total venture sales) were associated with higher relative market share despite there being no significant direct relationship between percentage of international sales and return on investment. Moreover, they argued that international operations cost more than expected, raising the question about the significant contribution of past financial performance to new ventures’ internationalization.

From the perspective of SMEs, Lu and Beamish (2001) found a negative and linear relationship between exporting and SMEs performance and a U-shaped relationship between foreign direct investments and SMEs performance in terms of return on sales and return on assets. Another research by Chiao, Yang and Yu (2004) reported an inverted U-shaped relationship between degree of internationalization and return on sales in Taiwanese SMEs.

2.5.2 Non-Financial Performance

As accurate and proper performance evaluation is crucial for determining the success or failure of a business, performance indicators that accurately reflect the competitiveness of a company must be carefully indentified. Traditionally, financial performance indicators such as firm revenue, market share and return on investment have been used in managerial decision making and perhaps extensive use of financial performance indicators encourage a focus on short-term results. In fact, in today's complex global competition environment, the combination of non-financial performance indicators provides a clear and more relevant picture of performance (Tseng et al., 2009). Several studies have supported the introduction of non-financial performance indicators. For example, Ma and Wang (2006) found that the development of innovative technologies has played an important role in increasing the global competitive advantage of companies in China. Zahra et al. (2000) related international entrepreneurship to technological learning and acquisition of knowledge and Oviatt and McDougall (1995) connected international entrepreneurship to market share.

Zahra and George (2002) suggested that a mixture of financial and non-financial measures should be used to measure the performance outcomes of internationalization due to inconclusive results on the financial outcomes of internationalization. Therefore, this study utilizes both financial and non-financial indicators to measure firm performance. Financial performance is measured by return on equity, return on assets and growth of sales, whereas non-financial-performance is measured by competitive capability and technological learning.

According to Kogut and Zander (1992) competitive capability is a firm's ability to deploy resources using organizing processes and principles to achieve its strategic objectives. It is an information-based, tangible and intangible process that is firm-specific and is developed over time through complex interactions among firm resources (Amit and Schoemaker, 1993). However, Shi and Gregory (1998) argued that competitive capability as a firm's ability to renew, augment, and adapt its core competencies over time. In addition, McEvily and Zaheer (1999) suggested that acquisition of competitive capability involves an on-going process that begins with knowledge and awareness of some opportunities and continues with decisions to internalize the capability and ends with the execution of the acquired capability.

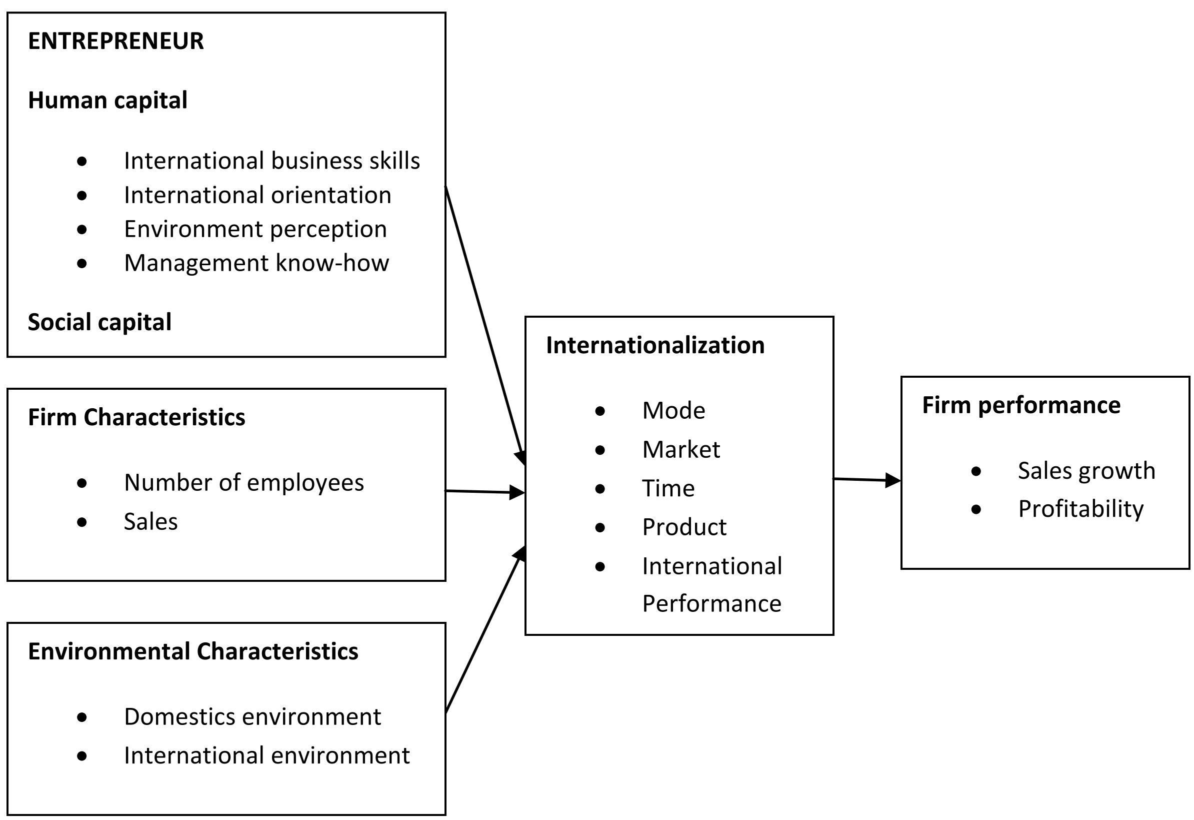
Technological learning is defined as the process by which a technology-driven firm creates, renews, and upgrades its latent and enacted capabilities based on it explicit and tacit stock of resources (Carayannis and Alexander, 2002). Technological learning performance is established by the capability of the firm to learn or create and apply technological knowledge (Lin, 2003). Based on a resource-base perspective, technology is seen as part of intangible or firm-specific assets and thus technological learning capability can be a part of a firm's competitive advantage.

2.6 An Integrative Conceptual Model

The latest approach to SMEs internationalization, called international entrepreneurship, is an interface of entrepreneurship and international business study (McDougall and Oviatt, 2000; Antoncic and Hisrich, 2001). This newly emerging research area is still clarifying the definition of the intersection of the two paths of research, with the most important activities associated with entrepreneurial firms seeking to cross national borders (Ruzzier at al., 2006). Scholars argued that despite the initiatives in a systematic review of international entrepreneurship, there is still the lack of an integrative theory (McDougall and Oviatt, 1999, 2000; Antoncic and Hisrich, 2001).

Antoncic and Hisrich (2001) proposed a new integrative conceptual model that attempts to integrate the traditional models with the emerging field of international start-ups. This model includes internationalization properties (time and mode) and internationalization performance, determinants of internationalization (environmental characteristics and organizational characteristics) and outcomes of internationalization (organizational performance). Based on the original model proposed by Antoncic and Hisrich (2001) which includes the conceptual integration of the theory of small and medium firms' internationalization process, the model also integrates the area of international entrepreneurship (refer to Figure 2.1).

Figure 2.1: The international entrepreneurship conceptual model



Source: Antoncic and Hisrich (2001)

2.6.1 Internationalization Properties and Performance

Time and mode of internationalization are two main internationalization properties. Time is an important property because it connects internationalization research on SMEs that are international from inauguration and those that internationalize their businesses later in the life of the firm. According to Oviatt and McDougall (1994) early internationalization can be seen as an internationalization characteristic that splits international new ventures from internationalization of SMEs. As soon as a firm ventures into a foreign market early and its judgment to expand internationally is based on past experience and structure (path dependency), the time of entry is a defining factor of SMEs internationalization.

According to Reuber and Fischer (1997) the delay in getting foreign sales can also be considered a measure of international behavior and different cut-off points in international involvement may illustrate the beginning of definite internationalization. Additionally, export intensity of 5% (McDougall, 1989) and 10% (Dichtl et al., 1994) were suggested for classification of a firm as being international.

The second property is the mode of internationalization. According to Agarwal and Ramaswami (1992) four most frequently used foreign entry modes used in foreign investment are exporting, licensing, joint ventures, and sole ventures. The least involved mode used by firms to enter foreign markets is exporting due to the lower commitment requirements of company resources as compared to joint ventures and overseas operations (Katsikaes, 1994).

Internationalization performance generally refers to the extent and growth of international sales. The two most commonly used export performance criteria are export intensity (percentage of sales accounted for by export) and export sales growth (Aaby and Slater, 1989; Walters and Samie, 1990; Moini, 1995). The other indicators of export performance are export sales profitability in contrast to domestic sales profitability (Bijmolt and Zwart, 1994; Nakos et al., 1998), geographic scopes of foreign sales (Culpan, 1989; Reuber and Fischer, 1997) and management satisfaction with export performance (Bijmolt and Zwart, 1994).

2.6.2 Environmental Conditions

Four environmental conditions are considered vital for internationalization, namely the characteristics of the domestic market, characteristics of foreign markets, market internationalization, and industry.

The characteristics of the domestic market in terms of size, degree of immigrants and internal competitiveness can influence internationalization. Countries that have small domestic markets and high percentage of immigrants could be connected with higher numbers of international start-ups (Madsen and Servais, 1997). According to Bijmolt and Zwart (1994) exporting can be significantly important for small countries that practice open economies. Bloodgood at al. (1996) examined small American firms and found that domestic industry profitability could be negatively associated with internationalization. Another study by Nakos et al. (1998) concluded that highly competitive domestic market conditions may perhaps influence internationalization. Therefore, it can be anticipated that domestic markets that are to some extent larger, more internally competitive and have more immigrants will positively influence internationalization.

Second, characteristics of the foreign markets in terms of market proximity, potential and country-specific investment risk can influence internationalization. Madsen (1989) stated that the important environmental factor is proximity to export market in terms of geographic as well as cultural distance. Two other characteristics that influence internationalization decisions are market potential in terms of size and growth and also investment risks that can negatively affect both the entry and the investment entry mode (Agarwal and Ramaswami, 1992). It is anticipated that foreign markets that are somewhat more proximate, have relatively larger potential and relatively lower country-specific investment risks will have positive influence on internationalization.

The next environmental condition that influences SMEs internationalization is market internationalization. Speed of internationalization can be much higher in internationalized market conditions (Johanson and Mattsson, 1988) and as suggested by Madsen and Servais (1997) internationalization may be an essential condition for international start-ups.

Fourth, the industry in which a firm competes may influence its internationalization. Moini (1995) suggested that exploration on export behavior on an industry-by industry basis should be emphasized since firms in different industries may differ in their export behavior. Early internationalization is predominantly important for firms in knowledge-based industries such as the software industry (Oviatt and McDougall, 1994). Bonaccorsi (1992) and Reuber and Fischer (1997) also suggested that industry-specific characteristics could affect SMEs internationalization.

2.6.3 Organizational Characteristics

Organizational characteristics such as firm size, strategy, international experience, international orientation, networking, the founder's and managers' characteristics may also influence internationalization.

Firm size will influence internationalization of SMEs. Bigger firms may be more internationalized than smaller firms due to the following attributes: (1) more financial and managerial resources; (2) greater production capacity; (3) ability to get higher economics of scales; and (4) likeliness to be associated with lower levels of perceived risks in exporting operations (Bonaccorsi, 1992). Larger enterprises had a higher extent of internationalization as compared to small enterprises for US high-potential ventures (Bloodgood et al., 1996). In addition, Nakos et al. (1998) found that larger, Greek SMEs had higher export performance than their smaller counterparts. In fact, larger firms had the benefit of more competitive advantage in contrast to smaller ones (Katsikeas, 1994).

Second, firm strategy is also considered a major influence of internationalization. Notably, strategy formulation in an organization in terms of analytically exploring, analyzing, and planning for export can be important for success in exporting (Aaby and Slater, 1989; Bijmolt and Zwart, 1994). For example, product and market differentiation strategies have been found to be positively correlated to internationalization (Bloodgood et al., 1996). Furthermore, Agarwal and Ramaswami (1992) suggested that internationalization mode choice is usually based on strategy consideration and is usually a critical strategic decision.

Third, international experience can influence internationalization. Nakos et al. (1998) examined Greek SMEs and found a positive relationship between the managers' international experience and export performance in terms of export intensity and export sales profitability in contrast to domestic sales profitability. Bloodgood et al. (1996) found a positive relationship between the managers' international work experience, but not international schooling, and the extent of internationalization at the time of the public offering of new high-potential firms. High international experience of the entrepreneurs was also observed as an antecedent of an international start-up (Madsen and Servais, 1997). In addition, international experience can be considered vital for export success (Aaby and Slater, 1989; Katsikaes, 1994) and successful exporters are likely to visit foreign markets often than the less successful ones (Moini, 1995).

Fourth, international orientation can influence internationalization. The firm's commitment to international operations was found to be positively related to export performance (Walters and Samie, 1990; Nakos et al., 1998). Similarly, other researchers indicated that management commitment to internationalization, attitudes, perceptions and expectations had a tendency to be positively related to propensity to export (Aaby and Slater, 1989; Bijmolt and Zwart, 1994; Moini, 1995). This shows that international orientation will positively affect internationalization.

Fifth, organizational as well as personal networks can also be considered as an important element for internationalization. Madsen and Servais (1997) viewed that the internationalization process of the individual firm cannot be considered in isolation, but should be studied by analyzing the firm's inter-organizational relationships. Johanson and Mattsson (1988) argued that the firm's relationships in industrial networks are an essential element in the internationalization process while

Hara and Kanai (1994) noted the importance of international strategic alliances for the business success of SMEs. In addition, research conducted by Coviello and Munro (1995) found that the interests of other players in the network of relationships influence internationalization attempts, and that relationships were established to compensate for limited marketing expertise and infrastructure. Thus it is expected that personal and organizational networking will have a positive effect on internationalization.

Besides, it was also found that the characteristics of founders or managers had an influence on internationalization. These characteristics include the demographics of founders of managers such as: age (Holzmuller and Kasper, 1991; Moini, 1995; Nakos et al., 1998), education level (Holzmuller and Kasper, 1991; Moini, 1995; Keng and Jiuan, 1989), and foreign language fluency (Aaby and Slater, 1989; Dichtl et al., 1990; Holzmuller and Kasper, 1991; Moini, 1995; Nakos et al., 1998). Some additional firm characteristics that can influence internationalization include firm age (Holzmuller and Kasper, 1991; Reuber and Fischer, 1997; Nakos et al., 1998), trained export personnel (Nakos et al., 1998), foreign ownership (Keng and Jiuan, 1989; Nakos et al., 1998) and organizational culture (Holzmuller and Kasper, 1991).

2.6.4 Outcomes of Internationalization

Organizational performance in terms of growth and profitability is the vital result of internationalization (Antoncic and Hisrich, 2001). The degree of foreign operations might be related to organizational performance as a firm can utilize interrelationships between different market segments, related industries and geographical areas by exploiting economies of scale, scope and experience (Kogut, 1985; Porter, 1985; Riahi-Belkaoui, 1998). At the same time the growth of firms is essential to the domain of international entrepreneurship (Giamartino, 1985; McDougall and Oviatt, 1997). Empirical evidence for this particular relationship is minimal. Bloodgood et al. (1996) found a positive but not significant relationship between degree of internationalization and sales growth. In addition, the effects of internationalization on profitability have been criticized due to inconclusive and inconsistent results (Sullivan, 1994; Riahi-Belkaoui, 1998).

This model contributes to SMEs internationalization research by highlighting the importance of entrepreneurship and entrepreneurs (and their characteristics), considered as the main variables in SMEs internationalization research. It also focuses on the time dimension, considered as a strategic dimension, particularly with the increasing number of SMEs operating internationally from their inception.

However, the proposed international entrepreneurship model has several limitations. The model does not indicate specific variables and their measurements on the determinants of internationalization especially companies', entrepreneurs' and environmental characteristics. It also does not specifically address the interactions among constructs. In addition, the model focuses only on financial outcomes of internationalization, ignoring the non-financial performance of an organization.

In essence, this study employs the model as a guide line for constructing the proposed theoretical framework with the aim of providing better understand of the internationalization of SMEs in Malaysia in terms of its antecedents and consequences.