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THE BENEFITS OF NETWORK IN MALAYSIAN SME INTERNATIONALIZATION

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DECLARATION

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DEDICATION

Every challenging work needs self efforts as well as guidance from the teachers, elders and friends who always close to my heart. I dedicate my humble efforts with love to

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Adam Bin Talib & Bedah Binti Ali

For their endless love and encouragement

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ABSTRACT

The objective of this research paper is to identify the benefits of network that contribute the most in the internationalization of Malaysian SME's. The internationalisation of firms, in general, has been recognised as a gradual process, referred to as the Uppsala model. The relationship between the business opportunities, the ability to access to the resources, joint venture and collaboration and the experiential knowledge with the SME's internationalization process are tested. The framework is developed based on previous literature gaps on SME's internationalization and the most influential factors that contribute in the process which is the network. The quantitative method was employed. Samples of 99 SME's that qualify with the criteria are selected from the lists and the questionnaires were distributed to the key informant of the company during exhibitions, expos and also handed by hand direct to the company as well. The results from the research that the experiential knowledge is the benefits that contribute the most in SMEs internationalization.

Keyword: Internationalization, small and medium enterprises (SME), benefits of network

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ABSTRAK

Objektif kajian ini adalah untuk menegenalpasti faedah-faedah rangkaian yang paling menyumbang di dalam pengantarabangsaan Industri Kecil dan Sederhana (IKS) di Malaysia. Pengantarabangsaan syarikat secara amnya dikenali sebagai proses perlahan yang juga dikenali sebagai model Uppsala. Perhubungan di antara peluang perniagaan, kebolehan mengakses sumber, usahasama dan penggabungan dan juga pengalaman dan pengetahuan telah diuji di dalam kajian ini. Rangka kajian ini telah diolah berdasarkan kajian lepas yang telah membuktikan bahawa rangkaian adalah faktor yang paling menyumbang dalam proses pengantarabangsaan. Kajian kuantitatif telah digunakan. Contoh sampel berjumlah 99 IKS yang memenuhi kriteria telah dipilih daripada senarai dan soalan kaji selidik telah diedarkan kepada syarikat ketika karnival, ekspo dan juga dihantar terus kepada syarikat. Hasil kajian mendapati bahawa faedah yang paling menyumbang di dalam pengantarabangsaan adalah pengalaman dan pengetahuan.

Kata Kunci: Pengantarabangsaan, Industri Kecil dan Sederhana, faedah rangkaian

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LIST OF ABBREVIATIONS

SME	Small and Medium Industry
GDP	Gross Domestic Product
SMIDEC	Small and Medium Industries Development Corporation
MATRADE	Malaysian External Trade Development
MIHAS	Malaysia International Halal Showcase
BO	Business opportunities
AR	Access to Resources
JVC	Joint Venture and Collaboration
EK	Experiential Knowledge

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CHAPTER 1

INTRODUCTION

1.1 Introduction/Background of the Study

Malaysia is one of the developing countries that located at the very Southeast Asia that consider Small Medium Enterprises (SMEs) contribution in Gross Domestic Product (GDP) growth. Since 2004, SMEs make up more than 97% of total businesses and employ 65% of the workforce in Malaysia (MSME, 2013). While larger companies can leverage their financial strength and capacity to grow, small and medium enterprises (SMEs) may not have it as easy expanding their businesses given their limited resources (The Star, 2013). According to the SME Corp's economic census for 2011, there are 645,000 SMEs operating in Malaysia, making up 97.3% of the country's total number of business establishments. Small and Medium Industries Development Corporation (SMIDEC, 2006) stated that SMEs regardless of the categories and sectors, contribute to the Malaysian economy tremendously which includes; contribution of output (i.e. products and services); creation of jobs opportunities; developing a pool of skilled and semi-skilled workers;

provide opportunities for technological development; offer an excellent ground for entrepreneurial and managerial talent.

SME were defined differently according to the country. As in Malaysia, SME is defining according to the sales turnover rate over year. The table below shows the definitions of SMEs in Malaysia according to the categories.

Table 1.1: SMEs Definition

Categories	Micro	Small	Medium
Manufacturing	Sales turnover of less than **RM300,000** OR employees of less than **5**	Sales turnover from **RM300,000 to less than RM15 mil** OR employees from **5 to less than 75**	Sales turnover from **RM15 mil to not exceeding RM50 mil** OR employees from **75** to **not exceeding 200**
Services and Others	Sales turnover of less than **RM300,000** OR employees of less than **5**	Sales turnover from **RM300,000 to less than RM3 mil**OR employees from **5 to less than 30**	Sales turnover from **RM3 mil to not exceeding RM20 mil** OR employees from **30** to **not exceeding 75**

Apart from that, the government also plays their roles to help the SMEs to expand their business. One of the latest efforts is held by Malaysian External Trade Development (MATRADE) which called 'Misi Belian'. It was held during the international exhibition in Malaysia like Malaysia International Halal Showcase (MIHAS). In this 'Misi Belian', the government brings the potential foreign buyers to Malaysia to meet the local SMEs. This is one of the alternatives that help the SMEs firms to save their costs and time in order for them to promote and sell their own products. Besides that, MATRADE also held an export training seminar for the

SMEs in order to clarify the benefits and the deeper knowledge about internationalization itself (www.matrade.gov.my). As we can see from the government efforts, they are also one of the important networks that can help to guide the SMEs firms with the financial aids, the tax incentives and also the promotion of the local products to the global market.

Ruzzier et al,.(2006) stated that internationalization means that a firm expands their business beyond a country's border. Most of the internationalization processes are focused on the larger and established enterprises rather than SMEs. This is because the larger enterprises got to know their home market even before they ventured abroad. This type of company follows international trends and conditions, exploiting them to its advantage (Rodriguez, 2007). There have been some studies that related with the SMEs internationalization in Malaysia (eg,. Hashim and Hassan, 2008; Zizah et al., 2010). However, the explanation of the factors that can influence the process of SMEs internationalization is still vague. Therefore, an integrated view of firm internationalization theories is recommended (Jones and Coviello, 2005). According to Zizah et al,.(2010), the most influential factors that affect the internationalization process of SMEs in Malaysia is networking instead of firm characteristics, industry factors, external influence and motivational aspects.

As a small and medium industry, the resources and the capabilities are very limited compared to the large enterprise and thus, they have to be more efficient and creative in using the capabilities and resources that they have. So it is vital for the SMEs to develop the network and business relationship to expand their business to the foreign market. Saleh and Ndubisi (2006) suggested that Malaysian SMEs must develop business networking and strategic alliances as opportunities for SMEs to gain competitive advantages for successful business development. Networks are useful for SMEs as they could use them to overcome problems of knowledge and technology as well as for obtaining finance and capital. SMEs in networks could also acquire and share knowledge on international markets in order to learn from and one another and speed up export entry (Tan, 2008).

Ahn et al., (2011) explained that networks can help international new ventures internationalize their products or services in instances where firms are

unable to cover the fixed costs to do so. The collaboration and the joint ventures are seems possible especially for the small firms as they have a very limited resources. As they can reduce the risks, the costs and also the expertise once they collaborate with the more established companies abroad. Insufficient resources are huge obstacle to internationalization (Chetty and Wilson, 2003). A network offers business opportunities with the low investment and that is very important for SMEs since they are considered as a financially constrained firm. The SMEs can expand rapidly their business as stated by Coviello and Munro, (1995) where the networks can help the SMEs to skip the traditional phases of the internationalization process by linking themselves with the large enterprise and more established.

Nowadays, in this growing fast paced, the business environment has offered many opportunities to capture the market attention. There have been a few research on the internationalization of SMEs issue and it can be proved that network (Zizah et al.,2011). The benefits such as experiential knowledge and the ability to access to the resources which cannot be provide by the other factors.

The significance of the benefits of network has been supported by Johanson and Vahlne, (1990) which they stated that the process of internationalization is the process of developing networks of business relationships in other countries through extension, penetration and integration. In order for SMEs to internationalize further, they have to develop the strong relationship within the internal domestic partner or foreign partners as Tan, (2008) stated that to build the reputational advantage, its require the firm to establish strong relationship through network building with its all internal and external contacts.

In this research, the benefits of the network are the business opportunities, the ability to access the resources, the experiential knowledge and also the possibility if the collaboration. These benefits are seems the most beneficial that are believed can contribute most to the successful of the internationalization process especially for SMEs companies.

Therefore, the aim of this research is to proof that networks contribute benefit in SMEs internationalization through network theory that invented by Johanson and Vahlne. The research also includes the disagreements on the first theory before the

theory revision. It is also to understand the process of internationalization of Malaysian SMEs deeper as this issue is probably new to the country. Even though, there are several research that highlights the issues of Malaysian SMEs internationalization (eg,. Zain and Ng, 2006), this research is still valuable as it highlights the importance role of the network itself.

1.2 Problem Statement

This studies focus on the benefits of the network in the process of Malaysian SMEs internationalization. Most of the studies in this research fields are mainly focus on western and also large enterprise. It is still vague on how the network relationship can contribute to the firm's internationalization.

1.3 Research Objectives

1. To determine the benefits of networks that contributes the most in the process of SMEs internationalization.
2. To identifies business opportunities contribute in SMEs internationalization.
3. To find out if access to resources contribute in SMEs internationalization.
4. To clarify joint venture and collaboration contribute in SMEs internationalization.
5. To confirm experiential knowledge contribution in SMEs internationalization?

1.4 Research Questions

1. If a company develops network, what will contribute to the process of SMEs internationalization?
2. What are crucial elements in networking the company must pay attention when intending to go international?

1.5 Scope and Limitation

The scope of this research has been confined within the benefits of networks in the process of SMEs internationalization in Malaysia. The type of SMEs that is selected includes various sectors and eventually the SMEs firms that have been internationalized. This has allowed the researcher to correctly measure the benefits of networks among their company and thus providing the accurate data for the research.

The limitation of this research is that the researcher has only considered to find only one SMEs firms from each of the sectors as the respondents. The time and costs constraints have also contribute to the limitation of the study since the time frame given is too short to collect more data.

1.6 Important of the Study

As stated in point 1.3, the objectives of this research is to identify the benefits of networks in Malaysian SMEs internationalization process and to identify on how these benefits of networks that are developed in the process of internationalization

can help Malaysian SMEs to internationalize further. The foundation of this research is based on the previous researches that have been evaluated with respects. This previous research has provided the perfect platform to study the benefits of the networks solely for Malaysian SMEs itself.

The outcome of this research might provide the practical recommendation and useful information to the future Malaysian SMEs firms that have intention to further their business in global market. They may have to consider that networks do play important roles in the process of internationalization of their business.

1.7 Summary

This chapter introduced the background of the study, research questions, research objectives, scope and limitation and also the contribution of the research. The next chapter detailed the literature review that has been conducted for this research.

CHAPTER 2

LITERATURE REVIEWS

2.1 Introduction

While searching for relevant literature, the researcher came across a substantial amount of written material on the process of SMEs internationalization and also the influential factor of the process itself. The extensive research also found by numerous authors on the issues regarding the SMEs field. However, less research was found to be done on the roles of the most influential factor of internationalization process which is the networking. After reviewing all the materials for several times, the related theories and concepts that will assist this research has been selected.

2.1.1 Network Theory

Tikkanen, (1998) stated that the network approach identifies market exchange as the outcome of interaction between exchange relationships with market actors. A firm's internationalization results from the development of a network of relationships with individuals and firms in foreign markets (Johanson and Mattson, 1988). The

firm's networks are find valuable for the process of internationalization and thus, it brings the firms to the access of the sources while saving their costs and also time. In order to understand the process of internationalization in depth, Madsen and Servais (1997) suggested that it is sensible to learn the international context in which a firm operates, such as environment and the firm's relationships with other firms or individual.

By networking, a firm can build up relationships, enabling the firm to access resources and markets, with other actors Therefore, network theory argued that the firm's internationalisation is not achieved solely by itself (Kumakura, 2012).

Johanson and Mattson (1988) have identified in their network theory four different situations that related to firms' internationalization and analyzed each situation. There are four stages or situation of internationalization process which are the Early Starter, Lonely International, Late Starter and International among Others. The first category is known as 'Early Starter'. In this first category, the firm only has a few international relationships, competitors and also suppliers in domestic and foreign markets. They have obtained only a little knowledge about international market and gain some knowledge from the other network members. There are also other factors that encourage them to enter into international market such as the customers and also the distributers.

The second category is the 'Lonely International' in which the firm that fall in this category has already internationalized and has experienced the relationships in domestic and foreign market by themselves but still at the beginning of the stage to enter the foreign market. Because of the previous experience that they gained and the stable position in the business network, they have advantages to enter into international market.

The third category is known as the 'Late Starter'. This firm has already involved in the internationalized environment. The established business network that they have with the customers, suppliers facilitate the firm's internationalization process. However, it is difficult for them to establish new position in the foreign market because the distributors and the customers may already have relationship with