

## **EXPLORING DRIVERS OF INTERNATIONALIZATION OF SMES IN AN EMERGING ECONOMY – CASE STUDIES FROM MALAYSI**

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### **ABSTRACT**

This paper is an exploratory study of the drivers of internationalization of Malaysian Small and Medium Enterprises (SMEs). The primary impetus for the study is the divided opinion of the influence of the size of the Malaysian market on internationalization efforts. In discussions with people in industry, the Malaysian market is perceived by some as being large enough for a domestic market based strategy. Alternatively some others feel that it is not large enough. There are numerous SME's in the country that operate in the international market in different sectors, in technology services, consumer and business products. Four case studies of Malaysian SMEs active in international markets were developed to focus on the drivers of internationalization for SME's in particular. The analysis of the cases revealed common drivers such as the entrepreneur's personality traits, network relations, and innovation as well as R&D in the firm that was specifically related to product and process technologies. In addition, unique and interesting drivers were revealed in the study including advancements in technology particularly the Internet, the role of the government and domestic market characteristics specifically low market acceptance of high quality goods, and the quality philosophy of the SME as drivers of internationalization. These findings indicate the need for further inquiry into the internationalization process and an examination of the implications for policy development.

Keywords: Internationalization drivers, small and medium enterprises, Malaysia.

### **INTRODUCTION**

Over the last few decades, extensive research has been carried out on the phenomenon of internationalization, from many different perspectives. Of renewed interest is the phenomenon of SME internationalization particularly those from emerging markets. The burgeoning literature on the internationalization process of Small and Medium Enterprises (SME's) (Lindstrand, Melen & Nordman 2011, Musteen, Francis & Datta 2010), Hutchinson, Quinn, & Alexander (2006) as well as influencing factors particularly entrepreneurial and network factors (Wright, Westhead & Ucbasaran 2007, O'Cass, 2009, Musteen et al., 2010) for SME internationalization bear testament to this growing area of interest. In the past, there have been studies related to the internationalization of SME's from countries with large domestic markets that identified motivations or drivers for internationalization. The findings from such studies were very different from studies in extremely small local markets like Finland, Singapore, Sweden, that lead to the concept of Born Globals (Nordman, & Melén 2008, Laanti, Gabrielson & Gabrielson 2007, Chetty & Blankenburg Holm, 2000) which identify the smallness of the local market as the primary driver.

While all these studies lead to perspectives that are interesting, such studies may not be relevant to intermediary countries like Malaysia. For example, a major argument of the "Born Global" phenomena's is that internationalization is due to small home markets. But a fairly sizable internal market exists in Malaysia and yet it has seen a rise of various SMEs playing a leading role in the global markets, for example, as original manufacturers of furniture for

export to various furniture brands across the globe. In a study of Malaysian furniture manufacturers, it was found that expansion did not take place in a gradual manner, and markets that were 'psychically close' were not key markets for the manufacturers (Andersson, Eriksson & Lundmark 2006). Other studies in the Malaysian context include an examination of factors leading to internationalization of the construction services industry, but not particularly in the SME category, citing entrepreneurial factors as a key influence (Abdul-Aziz & Sing Sing 2010).

Where public policy favors private initiatives to venture abroad and seek markets elsewhere, Malaysian SMEs internationalization presents a unique context. Thus, it was felt there is a need to examine what are the drivers that may lead SMEs to internationalize. Also the few research studies in the Malaysian context either utilize existing frameworks to explain the phenomena (Andersson et al., 2006) or focus on one aspect of the internationalization process such as the role of personal networks (Zain & Ng (2006). A more holistic perspective to the drivers of internationalization is warranted in light of the above reasons. This exploratory study uses a case study methodology in order to explore the factors or drivers of internationalization from a Malaysian perspective that could be useful to other emerging economies with similar market characteristics. The main aim of the study is to identify the key drivers of internationalization of SME's in a medium sized market country. The definition of SMEs for this study is adopted from the Central Bank of Malaysia (depending on the sector SMEs can range from 5-50 employees and in the case of medium sized manufacturers up to 150 employees).

The next part of the paper reviews pertinent literature to gain an overview on the issue of drivers of internationalization of SMEs in general and to help develop an initial framework for guiding the study. This is followed by an overview of the methodology and choice of cases. The next section describes the four cases developed and is followed by an analysis and discussion of the findings. The paper ends with conclusions drawn from the study.

## **BACKGROUND LITERATURE – THEMES OF INTERNATIONALIZATION OF SMES**

Historically, literature on the internationalization phenomenon illustrates how the initial focus of research within this field was more or less restricted to the activities of the multinational enterprise before the focus was shifted to the behavior of SMEs (Coviello & McAuley 1999). The process of internationalization may be best categorized as *traditional* or "the process of increasing involvement in international operations", referring to internationalization as being gradual nature and consisting of multiple stages (Welch & Luostarinen 1993; Johanson & Vahlne, 1977). This approach was labeled as "stage" approach, and assumed that firms are usually well established in the domestic market before venturing abroad. The firms usually venture to countries that are closer in terms of their 'psychic distance' first before venturing farther than the host countries (Bell, McNaughton & Young 2001). In contrast, the concept of the Born Global firms suggests that firms need not follow a stage by stage internationalization process (Knight & Cavusgil 1996, Madsen & Servais 1997, Kuemmerle 2002, Andersson & Wictor 2003). Born Global firms are said to have the ability to go global shortly after their inception. These firms also do not exhibit a preference for countries that are close in terms of the 'psychic distance'. These Born Global firms are defined as "business organizations that from inception, seek to derive significant competitive advantages from the use of resources and the sale of outputs in multiple countries" (Oviatt & McDougall 1994). Similarly, Knight & Cavusgil (1996) conceptualize born-global firms as being "small, and usually technology-oriented companies that operate in international markets from the earliest days of their establishment". According to Knight & Cavusgil (1996), a number of trends or factors have led to the emergence of born global firms. These include:

- the increasing role of niche markets and greater demand for specialized or customized products;
- significant advances in process technologies;
- small-scale production of complex components;
- advances in communications technology, which meant that small firms can manage international operations more efficiently and have greater access to information;
- the inherent advantage of small firms in terms of quicker response time, flexibility and adaptability;

- the internationalization of knowledge, tools, technology and facilitating institutions, which provide opportunities for technology transfer and access to funding; and trends towards global networks, which are facilitating the development of mutually
- beneficial relationships with international partners.

An extensive review of the literature of the born global phenomenon can be found in Rialp, Rialp & Knight, (2005). A number of pertinent characteristics mark the distinction between the traditional international firm and the Born Globals. Madsen & Servais (1997) demonstrate that Born Global firms did not follow the incremental stage process in their internationalizing efforts rather these firms could have exports in multiple countries from inception, were influenced by domestic and foreign client followership, the targeting of niche markets and industry specific considerations. Similarly Born Global firms were found to be in high technology product related industries with significant niche markets internationally. The products may be of high value or innovative offerings. In particular, these characteristics are more inclined towards SME's rather than large multinationals. In the next section, the key drivers for these SME born globals are discussed.

### **Role of networks**

Various studies have reviewed the role of networks and the nature of networks that influence the internationalization process of Born Global firms (Lindstrand et al., 2011, Freeman, S. and Cavusgil, S. T. 2006, Ku-Ho & Chaney 2007, Chetty & Agndal 2007). The personal networks of SME's also termed social capital particularly in the high tech and research related industries are particularly important for amassing knowledge in a short period of time as well as gaining access to financial resources (Seppo 2007, Coviello, N. and Munro, H. 1997). Coviello & Munro (1997) conducted a study involving 29 SMEs in New Zealand's software development industry, and their research posited that such firms do not follow the gradual internationalization model. Instead they internationalized in less than three years by building relationships with other networks in their industry. Their research also highlighted the importance of such networks, both formal and informal, in the selection of foreign markets as well as the choice of the entry mode.

In a similar vein, Rutashobya & Jaensson (2004) studied small handicraft exporting firms in Tanzania and reported four common typologies of networks used by these firms: (1) networks with friends, buyers and close family members, (2) networks formed with intermediaries in foreign markets, (3) networks with other members of the industry including local and foreign associations and (4) networks with local manufacturers. Their case studies illustrated the value adding benefits of networks to small firms. Furthermore the owner/managers networks facilitated initial entry into foreign markets by providing access to information of foreign markets including demand, designs, prices, delivery, access to foreign trade fairs, access to foreign markets, training opportunities, and supplier credit. These networks facilitated the case study firms with regards of export market entry as well as being a means of overcoming the various resource constraints that such small enterprises from developing countries face.

### **The entrepreneur/ management team**

Another key factor in is an area that combines entrepreneurship with international business research called international entrepreneurship. It is defined as a "combination of innovative, risk seeking behavior that crosses national borders and is intended to create value in organization" (McDougall & Oviatt 2000). The impact of the entrepreneur can be even greater in SMEs where a sole entrepreneur or manager can have a greater impact on the firm's overall activities. An international venture may face various obstacles whilst pursuing international business and therefore, the initial attitudes of top management towards the international market and opportunity selection will form the basis of the firm's future direction.

Westhead, Wright & Ucbasaran (2001) identified from their findings of a sample of 621 manufacturing, construction and services business located in Great Britain, common traits of principal founders, businesses and the external environment that may encourage SMEs to internationalize. The study confirms that older founders, with more resources at hand, greater knowledge, a wider network of contacts and considerable management know how were more likely to be exporters. Moreover entrepreneurs with industry specific knowledge were more likely to export as compared to those with little or no previous experience in the industry. In a dynamic business environment, this prior experience may aid in reducing any perceptions of uncertainty or risk thereby increasing the speed of internationalization.

Laanti et al., (2007) concur and state that the extensive previous experience or skills of the founders can aid the Born Global in reducing the gap in resources against larger competitors, especially in niche, emerging technologies and services businesses where founders with extensive international experience, good foreign language skills, international networks and excellent technological competence can help reduce risk in an international business environment and hence reduce “lateral rigidity towards globalization”.

Evangelista (2005) reports similar findings through their study of six Australian Born Global firms. Their findings suggest the growing recognition of the top management and entrepreneurial teams aside from the founder. Amongst drivers that stood out as essential for the formation of the firm were the education, previous industry, founding and international experience of the top management team. These drivers were required in order to develop the firm’s initial or future product offerings and accelerated the internationalisation process of these firms apart from facilitating the internationalisation efforts in the first instance.

#### **Other external driving forces**

Apart from earlier studies that highlight entrepreneur and networks, other research also points toward a number of external driving forces which lead to the rapid internationalization of firms. For example, according to Evangelista (2005), the environment comprises of all those external drivers that the entrepreneur perceives as influencing the internationalization decisions of the company, such as domestic and foreign market conditions, hostile domestic market, technology and Government. The domestic market being too small, saturated or even competitive can push firms to explore opportunities in international markets during its early years (Karadeniz & Gocer 2007). Similarly, Johnson (2004) states that drivers influencing early internationalization include internal factors, external factors and facilitating factors.

While internal factors deal with matters of the organization and the entrepreneur, the elements of interest are the external forces which not surprisingly encompass a wide range of factors. Such drivers as listed by Johnson (2004) is comprised of industry and competitive environmental factors ranging from international nature of industry, the ‘borderless world’ phenomenon, economies of scale requirements necessitated by industry, homogeneity of customers in international markets, international market imperfections, accelerated pace of global technological innovation, the competitive nature of the international industry, the need to respond to competitor initiatives worldwide, the need to pre-empt competitors, intense domestic competition, market characteristics such as small domestic market, short product life cycles, worldwide standards, influence of network partners, external ‘pull’ from domestic and international customers.

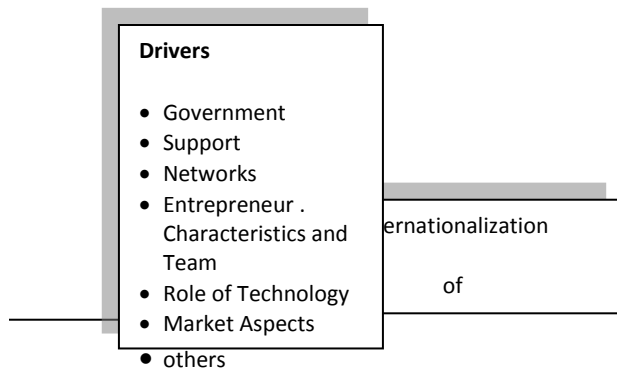
In summary, research on the drivers for the rapid internationalization of SMEs appear very fragmented, although recent works of literature have sought to provide a more synthesized view of the phenomenon. The common cited factors within the extant literature include: (1) external conditions (including technological developments and market conditions), (2) increased importance of global networks (3) and more sophisticated set of entrepreneurial skills of the human resource (Rialp et al., 2005).

### **OVERVIEW OF METHODOLOGY**

The study is designed to be more exploratory and descriptive; hence a case study approach is adopted. Four cases of firms from the Malaysian ICT industry, rubber glove industry, furniture industry and personal health/beauty industry respectively are developed to address the questions raised within this study. Daily press had been reporting that firms in these sectors have emerged as important exporters. The cases were chosen from different sectors to investigate and gain a broader perspective of the issues being investigated rather than prove any hypothesis. The following table 1 gives some demographic details of the four cases examined.

<b>Table 1. Overview of the Case Firms</b>				
	<b>Hartalega</b>	<b>MOL</b>	<b>CSF</b>	<b>TANAMERA</b>
No. of Founders	1	2	1	2
Age of the Firm at Interview	20	8	3	8
Age at internationalization	0	4	0	3
Export sales (%)	98-99	< 50	20	50

A semi-structured interviews were done to collect the primary data and considered to be best suited for this approach and secondary data from published sources were used to develop the case studies. An initial research framework as in Figure 1 was developed to guide the development of the cases for the study.



**Figure 1. Initial Framework for the Study**

Following a similar pattern of research methodology used in previous works of literature (Chetty & Campbell-Hunt, 2004), Nordman & Melén (2008), Freeman, Edwards & Schroder ( 2006), Freeman & Cavusgil (2007), a cross case study method was employed where we study multiple organizations individually and then cross-examined for the occurrence of any similar patterns (Yin (2009) or any unique themes of how drivers of internationalization and also how these firms internationalize. In the next section, the case studies are presented in a narrative form and this is followed by an analysis of the cases.

## **THE CASE STUDIES**

### **Case 1 – Hartalega**

From its humble beginnings in 1988, Hartalega has grown to become Malaysia’s and the world’s largest synthetic gloves manufacturer. However the company is still considered small as its annual production capacity is just one tenth of the world’s largest glove maker (Ching 2008b). The company manufactures natural rubber examination gloves, nitrile examination gloves, nitrile clean room gloves and natural rubber surgical gloves both under its own brand name and also conducts OEM under third party and principal’s brands which contributes nearly 95.6% of the groups revenue (Ching 2008a).

The year 1988 also marked the firm’s first foray into international markets via exporting to the USA. Furthermore as part of the firm’s expansion plans two subsidiaries, Pharmatex Pty Ltd (Australia) and Pharmatex Inc. (USA), were set up in 2001 and 2003 respectively, in an effort to focus on the marketing of latex gloves in Australia and USA. Since then the group has successfully expanded into 23 countries including USA, Brazil, Japan and Germany; with plans of entering other markets such as South America, Middle East, Russia, China and India (Hun 2008) where increasing populations are expected to stimulate the demand for gloves in the healthcare sector (Hun 2008). Hartalega was established with the intent of trading in overseas markets and hence nearly 98%-99% of its total revenue is derived from foreign sales.

The company was the brainchild of 60-year-old Kuan Kam Hon, who has often been described by friends and employees as being a perfectionist, very detailed oriented and having “high standards that have driven the company to where it is today” (Narayanan, S. V. 2007). Kuan’s early life was filled with much hardship and pressures to enter the family’s construction business meant completing only secondary schooling. He ventured out into the business world on his own which lead him to setup his own weaving business. However the recession in the early 1980s caused some setbacks for this business. In the midst of this adversity, he foresaw another business opportunity within the Malaysian Rubber Glove industry; this opportunity was mainly a result of the growing AIDs scare which had

dramatically boosted the global demand for rubber gloves. This is in addition to the fact that the rubber industry is resource based and rubber is abundant in Malaysia (Narayanan 2007).

At the time Hartalega was setup in 1988, the manufacturing technology used in the industry was very rudimentary and Kuan learned that to become successful R&D must be carried out in-house. This mindset of the founder that automation, R&D, IT solutions and innovation were the optimal means of reducing costs, boosting efficiency and creating better products became the basis of Hartalega's competitive advantage. Many of the machines, equipment and IT systems being used by Hartalega were developed in-house by Sentinel Engineering (M) Sdn Bhd (SEMSB), a subsidiary of Hartalega which focuses on R&D of automations systems for continuous improvement in Latex gloves manufacturing technology (Hun 2008).

The quest for manufacturing the most innovative gloves has made product development an essential aspect of Hartalega's R&D activities. When the prices of natural rubber became very unstable in 2004, as a strategic move it was decided that Hartalega's production should be shifted from the production of natural rubber gloves to that of nitrile gloves whose prices were more stable (Ching 2008b). Working alongside their major US customer Microflex Corporation in 2005, a revolutionary type of nitrile gloves that replicate the natural elastic properties of natural rubber was created. The product was well received by customers (Ching 2008b) and this visionary move of switching to nitrile proved to be financially and strategically beneficial for the company giving the firm a competitive advantage over other competitors (Hun 2008).

Other factors cited as a driver of the firm's rapid international success are its association with industrial promoting bodies in Malaysia such as MARGMA and MATRADE as well as its active participation in Exhibitions and Trade fairs. The company is pursuing plans of capacity expansion via the setting up of its fourth and fifth factories in Malaysia, in order to capitalize on the growing market for nitrile gloves (Hun, C. J. 2008).

### **Case 2 – Circle Square Furniture**

Circle Square furniture Sdn Bhd (CSF) was established in 2005, by Mr. Alan Kee who is also the current managing director of the company. The company specializes in the manufacture and export of bedroom sets, wooden furniture, living room furniture dining sets and entertainment furniture such as television cabinets, console tables, and display cabinets.

The company was quick to recognize that the domestic Malaysian market was limited and had relatively lower purchasing power compared to foreign markets. Hence, efforts to internationalize the business via exporting was undertaken right from its inception. Major foreign markets targeted by CSF included Australia, Singapore, Middle East, Canada, India and Africa. These markets contributed towards an estimated 20% of CSF's total sales revenue for the financial year 2007. The company proactively considers potential overseas business opportunities based on referrals from current business networks and buyers.

An essential element of the firm's international and domestic success is CSF's founder and managing director, Mr. Alan. From a less privileged family background, Mr. Alan's education was cut short when he was forced to leave school with a secondary school degree in hand and earn to sustain his family. Later on, Mr. Alan later worked for a furniture company and providing him with the necessary skill set and knowledge to embark upon his own furniture manufacturing and exporting company named Circle Square Furniture, in 2005.

Apart from providing Mr. Alan with the required set of skills and knowledge for setting up CSF, his prior work experience in the Malaysian Furniture industry provided him with a plethora of business contacts that have both helped setup and contributed to the success of the firm. Participation in trade fairs and exhibitions was identified as an indispensable source of establishing business contacts, including customers. Since both domestic and international sales are handled by wholesalers, Mr. Alan states that to be successful it is imperative for firms such as CSF to have good working relations with such business partners as they may even help identify business opportunities that a small furniture manufacturing firm may not be capable of doing by itself.

### **Case 3 – Mol Access Portal**

MOL Access Portal Berhad is an MSC Malaysia Status Company specializing in internet media and e-commerce; operating and developing payment systems controlling a network of 100,000 physical and virtual payment channels across 50 countries globally. The firm's product portfolio includes a variety of offerings including MOL ePoints, MOLETopUp, MOL Freedom, GamesHive, MOL Wings, Pony, MOL eSolutions and MOL SafePay (MOL Access Portal, 2007). Established in 2000 by serial entrepreneur Mr. Ganesh Kumar Bangah, the company was listed on the MESDAQ Market of Bursa Malaysia Securities Berhad under the technology sector in 2003.

Today MOL Access Portal employs approximately 60-70 employees. It has not only grown to become the market leader for portals in Malaysia but also the largest games aggregator in South East Asia. Currently four versions of their main international product, MOL ePoints, are offered: MOL Global, MOL Greater China (serving China, Hong Kong, Taiwan and Macau), MOL India and MOL Malaysia, in an attempt to localize the MOLEPoints model in the respective countries. Although less than 50% of MOL's current revenue stream is generated from its international operations, this figure is expected to rise to 80%, mainly through expansion of the MOLEPoints system via its MOLS Country Partner Programme (MCP) to Philippines, Indonesia, Thailand and New Zealand currently in progress. The MCP consists mainly of expansion via the formation of tie-ups and strategic alliances in foreign markets such as those in Philippines and Singapore in 2008. Rapid international expansion stems partly from the company's realization that they are too dependent on the domestic market and moreover due to the limited size of the Malaysian market (Prathaban 2006)

Founder Mr. Ganesh is someone well familiar with the local information and communication technology industry, at only 29 years of age he became the youngest CEO to run a public listed company and has been labeled as being an instrumental figure in Malaysia's IT industry. Ganesh is described as being a visionary with an intense passion for business. Mr. Jason, the Business Development Executive, at MOL Access Portal says that *"somehow you would feel that his ideas are out of this world...and you'll be like that's not possible and we are looking at figures and there are no sales to sustain such a business model but he'll say never mind lets go there and get ready."*

With over 11 years of experience in the industry, Mr. Ganesh has had an entrepreneurial mindset right from the start, first entering the IT industry by providing technical assistance to his teachers and peers while still at high school. At 15, he established a small venture which required him to purchase computer hardware from Singapore and then reselling it to acquaintances back home. While still in secondary school he was employed part time by his mentor and eventual business partner, and dealt with software development, project management, internet infrastructure and internet commercialization efforts. His work with this firm encouraged Ganesh to combine his existing network infrastructure and his entrepreneurial skills to develop a chain of cybercafés, the first of its kind in Southern Malaysia. This further led to the creation of a cybercafé management software and later to the creation of MOL Access Portal, in 2000.

Networks are considered essential by the firm for the smooth running of the company in the domestic and equally if not more at the international level. Since the company is both channel and content driven, maintaining a balance between the two is viewed as essential to the success of the firm. As Mr. Jason puts it "support from your network partners is always important...they are actually supporting our idea of moving into other markets". This, he adds, has



made it easier for the firm to internationalize. Similarly partnering up with big players in the industry such as EBay, M2B Asia Pacific Pte Ltd, 7-Eleven, MasterCard, EON Bank and Digi Telecommunications Sdn Bhd to name a few. Initiatives taken by the Malaysian government and industrial associations such as MATRADE, are mentioned by MOL, as aiding the company's efforts, not only for going overseas but also further strengthening their position in the international markets through loan grants for branding initiatives.

#### **Case 4 – Tanamera**

In Malay language, the word Tanamera literally means Red Earth. Tanamera's business concept revolves around the provision of a range of spa products/services and accessories, raw materials for which are sourced from tropical regions. The company structured into two core divisions, Tanamera retail which deals in marketing and sale of spa products and accessories and Tanamera Wellness Spas that offer spa services. Tanamera is essentially a manufacturing company, established in 2000 the firm began its international sales in 2003. Its initial export product portfolio consisted of eight products which served as a model for launching the company into overseas markets; this product line was increased to 16 by the end of 2003. At the time of its founding, entering and establishing itself in international markets was the only concern of Tanamera's management; thus foreign sales contributed toward 100% of its total sales turnover. Primarily targeting the EU region, Tanamera's main markets include Germany, Sweden, Denmark, Spain, Portugal, Austria, United Kingdom and also Russia and Malaysia. The company plans to further expand the company into the Middle East, Indonesia, Australia and China. However after establishing themselves in international markets Tanamera products were brought back into the domestic market and currently foreign sales contribute towards 50% of total sales.

Tanamera is a family run business and its two founders are siblings. They took over the business from their mother who did traditional Malay herbal formulations and reshaped the business into something that they could better associate with. One founder has an IT related background and was responsible for the initial concept of Tanamera; he also deals with any legal matters concerning the company and product development. The second founder is responsible for the rapid overseas expansion of the firm. She is a business management graduate and the company's current General Manager. She has also been involved in formulating natural spa products for various companies and is an advisor on Malay treatments and herbal products. Strong relations with business partners have been essential to Tanamera's rapid overseas expansion as the firm relies on a network of global distributors to carry out international sales. The firm is particular regarding its partner selection process, and works only with those who it feels share the same values as Tanamera's management team. Initial ties with European distributors have been useful in enhancing the firm's access to other markets within that region. Moreover these business partners have also been vital in shifting the strategic direction of the company from natural products, to one geared towards the spa market. This strategic realignment has aided in penetrating the European market and establishing a strong foothold overseas.

The firm's initial participation in trade fairs and exhibitions led to their first international foray, when their current German distributor came across Tanamera's products and decided to try selling it Germany. Trade promotion agencies such as MATRADE, MARA and SMIDEX have played an assisting role in Tanamera's international expansion efforts, in terms of helping create domestic distribution network ties, international marketing, and providing grants for expansion and promotion purposes. Networks have also influenced the firm's product development. Links with local universities are used to source raw materials as well as test out new products that are formulated by Tanamera. In addition suggestions from customers are also a source of new product ideas.

A factor that helped Tanamera to keep costs low in its export markets (of developed countries), was the presence of efficient postal services offered in developed markets. These efficient postal services helped in the company's distribution efforts, firstly in terms of keeping cost low in such markets (as in UK where warehousing rentals are significantly high). Secondly, the company could use postal services to 'ship' products around and improve the efficiency of Tanamera's delivery services as orders could be sent and received by customers in a single day.

The motivation to conduct export right from its inception was attributed to domestic consumer's perception of natural products. Products with a natural formulation were perceived as being of a cheaper quality, and hence Tanamera's products were questioned in terms of their higher prices and packaging. Entry into the Malaysian market was facilitated by Tanamera's initial efforts to launch itself in overseas markets before establishing the firm in the domestic Malaysian market. Doing so has led to customers perceiving Tanamera's product as premium.

### **ANALYSIS AND DISCUSSION**

The cases presented in the previous section provide indicative evidence to some interesting insights of the drivers of internationalization of Malaysian SMEs. While some of them are similar to the extant literature, new factors have been revealed in this study that requires further investigation.

Firstly, in terms of the characteristics of the domestic market, it is apparent from the case study firms that the limited size of the Malaysian market is an important motivation for SMEs to venture into international markets. An interesting finding regarding the Malaysian market as highlighted in Hartalega's and Tanamera cases was the prevailing mindset of domestic consumers to accept low-grade products in order to cut costs. This mindset was a barrier to find a large enough domestic markets as these firms manufacture high quality and innovative products that were priced a little above the industry average. The preference or acceptance of relatively lower grade products (in this case gloves) in the Malaysian market forced the firms to look elsewhere for business, resulting in instant exporting at the company's inception. In Tanamera's case, the all natural product including natural packaging was viewed negatively by consumers in the market. The consumers did not appreciate the technology behind the products and the pricing of the products in the markets. At the time of inception, only foreign brands in the market offered such products further complicating market acceptance.

The importance of the founder/ entrepreneur in creating and taking the firm international has been widely acknowledged in the literature (Madsen & Servais 1997); Kedia & Mukherji (1999). On a similar note, findings of this study highlight the focal character played by the entrepreneur in not only setting up the business but also in rapid internationalization. Personality traits of the founder were an essential component of the international success of the case study firms, with "visionary", "determined", "risk taker" and "analytical" being some of the common terms used in describing the personality of the founder / entrepreneur. Though previous studies stress on a strong educational background of the founder as a prerequisite for rapid internationalization of the company, findings from this study suggest otherwise (Evangelista (2005). Only one of the four case study firm founders reached university, while the others were either school or university drop outs.

<b>Table 2. Entrepreneurial Element Driving Internationalization</b>				
	<b>Case 1</b>	<b>Case 2</b>	<b>Case 3</b>	<b>Case 4</b>
	<b>Hartalega</b>	<b>Circle Square</b>	<b>MOL Access</b>	<b>Tanamera</b>
<b>Level of Education</b>	Secondary school drop out	Secondary school drop out	University drop out	University Degree Holders
<b>Networks from previous experience</b>	Not Available	Very Important for set up and expansion	Very Important for set up and expansion	Very Important
<b>Strategic Thinking and Global Vision</b>	High	High	High	High
<b>Prior Industry Knowledge</b>	Medium	Very Important	Very Important	Very Important
<b>Technical Knowledge</b>	Medium	Very Important	Very Important	Very Important

However as suggested by literature, previous industry experience and the existence of pre-existing networks were found to be significant drivers of rapid internationalization (Johnson (2004); McDougall & Oviatt (2003); Westhead, et al, (2001). Founders of MOL Access Portal and CSF possessed strong industrial and international business experience prior to starting their respective ventures. Correspondingly prior network connections were highlight by the respondents as being essential in setup and internationalization of their business. These results therefore support the general view that the founder/entrepreneur is a vital resource of the firm, specifically their personality traits, previous experience (international or otherwise) and the networks they have – all can help drive the company towards rapid internationalization.

**Other Drivers of Internationalization – Technology, Networks, Markets and Government Support.**

Advances in technology have played a vital role in aiding rapid internationalization for all four firms. In particular, the widespread use of the internet was identified as being particularly useful in locating and communicating with customers among all the four cases. Advances in manufacturing technology have provided Hartalega with a competitive advantage that has resulted in a cost efficient manufacturing process and more importantly an innovative and high quality product (gloves). Likewise improvements in the level of technology in both its domestic and international markets have helped MOL Access Portal with its product development efforts. Of particular relevance to the company were improvements in the areas of broadband technology as online games form a main component of the company’s international sales figure. In terms of product development and technological advances, the rapid internationalization efforts of both Hartalega and MOL Access Portal seem to have been propelled by the existence of an in-house R&D function. For both companies having an in-house R&D function has led to the development of innovative and distinct products or manufacturing technology, providing the company with a strong competitive advantage to leverage itself in international markets.

<b>Table 3. Other Drivers of Internationalization</b>				
	<b>Case 1 Hartalega</b>	<b>Case 2 Circle Square</b>	<b>Case 3 MOL Access</b>	<b>Case 4 Tanamera</b>
<b>Technology</b>	Technology important for international competitive edge.  Internet's role in communicating with clients	Technological advancements vital to locating and communicating with clients	Technology basis of innovative products & international competitive advantage.  Internet used to locate and contact clients	Technology important in international competitive edge.  Internet's role vital in communicating with clients.  Innovations in manufacturing technology not adopted.
<b>Foreign and Domestic Market Conditions</b>	Relatively higher purchasing power of foreign customers and willingness to pay higher prices for quality products.  Small domestic market  Domestic market not quality conscious	Small domestic market  Lower purchasing power of domestic consumers	Small domestic market	Small domestic market.  Domestic market unable to fully grasp product concept
<b>Government Support</b>	Important	Important	Important	Important

Strong network relations were identified by all three firms as being imperative in the company's initial and future internationalization efforts; this is in conjunction with previous research carried out in this regard (Chetty & Campbell-Hunt 2004), Laanti et al., 2007). The study finds support for three of the four common type of typologies of networks use by firms reported by Rutashobya & Jaensson (2004), namely networks with friends and close family members as

in the case of Hartalega and MOL Access Portal, networks formed with intermediaries in foreign markets as in the case of MOL Access Portal and CSF and networks with other members of the industry as in all three cases.

The findings from the cases indicate that limitations of the domestic market can be a significant driver of accelerated internationalization. The Malaysian market was described as being limited both in terms of population and purchasing power. In addition, the findings also support the vital role of industrial associations such as MATRADE and MARGMA in supporting and providing incentives to promote rapid internationalization. Trade fairs and exhibitions organized by these associations are vital for Malaysian SMEs in finding customers and extending their networks.

Overall, the findings from the cases support the extant literature on the importance of entrepreneurial aspects, networks, role of technology and government support. These findings provide some indicative evidence for policy and institutional support for Malaysian SMEs in their internationalization efforts. The findings about entrepreneurial aspects indicate experience with MNCs facilitates internationalization efforts. It provides entrepreneurs with industry/technical knowledge as well as networks/linkages with relevant actors, which the policy makers can enhance in terms of developing institutions and support systems. While these findings are useful for both practice and for policy makers, unique findings have emerged from the cases which have not been discussed in the Internationalization literature. These findings need further investigation and further develop the internationalization literature about SMEs in Emerging Markets. These are presented in the following paragraphs.

#### **Quality Philosophy as Driver of Internationalization of SMEs**

A critical factor that was a driver to help in the internationalization of the case firms was the quality philosophy of the firm. In two of the case firms it was mentioned that the domestic market was “not quality conscious” or “..... unable to fully grasp the product concept”. Instead of changing the quality related parameters for catering to the local/domestic market – the ‘quality philosophy’ helped to be a driver for internationalization. This is also interrelated with technology as a main driver as these firms have also made investments in R&D to support their product development.

#### **“Invented Here” Syndrome Driving Internationalization**

Although not in the framework or explicitly discussed, one of the issues we found was the ‘Invented Here’ syndrome leading to the internationalization of newly formed firms. Though all the cases studied did not find support for this syndrome, the discussions during the interviews suggested that the concept may be a more relevant driver for the rapid internationalization of a fast moving consumer goods company or for firms in the technology sector. At the firms’ inception, an attempt was made at penetrating the local markets but when this did not materialize due to the perception by consumers that competing ‘foreign’ brands were preferable, the owner/decision maker took a decision to “try” out the overseas markets.

#### **Details of the Two + One Stage Process of Internationalization**

Based the findings from the cases, it appears that the Malaysian SME’s go through a two stage process of internationalization. But while the two stage process is not new in the literature (like the Uppasala Model), it is in the process of each stage that the difference is in the context of the Malaysian cases. In three of the four firms – we find that there is an attempt to establish themselves in the local/domestic markets and on identifying/perceiving certain limitations in the local markets they start their attempts at internationalization. The lightly different pattern we found is explained in the following Table 3.

<b>Table 3 – Stages of Internationalization and Description of Process in each Stage</b>	
<b>Stage</b>	<b>Description of Process</b>
<b>One – Explore Local Market</b>	Initial products developed and offered in the home market. Marketing efforts made to establish in local market – limitations of the local market – be it in terms of size or readiness for the product lead to seeking of international markets
<b>Two – Expand in Global Markets</b>	Some contact made – to proactively seek markets overseas  Some “accidental” events lead to finding overseas customer and then growth take place
<b>Third – Re-Entry into Local Market</b>	After entering / establishing in the overall market the firm re-enters domestic

In addition to this second stage there appears to be a third stage where they re-enter the local / domestic market. So internationalization of SMEs has implications for developing abilities/capacities either to gain ‘credibility’ or to be able to compete (in many cases with larger or MNCs) in the domestic markets.

## **CONCLUSIONS**

This paper focused on identifying the drivers for internationalization amongst Malaysian SMEs. The cases reveal that commonly found drivers in literature like the entrepreneur, as essential factor for internationalization of SMEs. Specifically the findings point towards the importance of the entrepreneur’s personality traits, his /her prior industry and work experience as well as any previous networks contacts to support the SME’s quest for internationalization. The second finding what is discussed often in literature is the significance of network relations, especially ties with family members or links developed through other organizations like industry associations etc. Thirdly, technological advancements were seen as being essential motivators of early internationalization, in particular those related to product and process technologies and use of the internet. Findings suggest a link between the development of a unique product or process, creation of a competitive advantage in overseas markets and the existence of an in-house R&D function; also, it can be gleaned from the cases that the role of industrial associations and government agencies are important in supporting internationalization. These organizations act as ‘intermediaries’ between the markers and the SME firms helping in providing market information and brand building.

In addition in terms of the domestic market characteristics, the limited size of the domestic market was found as being a prevalent cause to internationalization for all these cases examined. The study also highlighted the domestic market characteristic of not demanding high-quality products as a driver of rapid internationalization for firms unwilling to compromise on the quality of their manufactured products.

These cases also provide anecdotal support for the proposed notion of “not invented here syndrome” and as a driver for internationalization by Malaysian SMEs (in the technology or FMCG sectors).

### **New drivers of Internationalization of SMEs in Emerging Economies**

One of the issues not observed in literature that we wanted to investigate has been termed as the 'Invented Here' syndrome- which is one of the drivers leading to internationalization of newly formed SME's. This issue is opposite of the 'not invented here' syndrome. The 'Not Invented Here' syndrome has been mentioned as one of the reasons for firms in developed countries not importing products from emerging markets. However, in Malaysia from discussions with executives, we noticed the 'invented here' syndrome. This syndrome is based on a recurring issue that many SMEs, as a necessity, have had to look to overseas markets as the local market preferred imported products, which are perceived to be of better quality.

Another critical finding from the cross case analysis is that – the internationalization process of these SMEs neither fit the stage growth model nor the 'born global' model – they initially explore the local market, develop the concept to product and the internalization happens un-intentionally – due to non-acceptance of or lack of demand for their products in the local markets and encouraging exploration of international markets. In the cases here we also find the addition stage where these SMEs re-enter the domestic markets after establishing themselves overseas.

### **LIMITATIONS AND FURTHER RESEARCH**

Overall, our results seem to indicate that Malaysian SMEs studied, were more reactive than proactive and while there are some classical drivers of internationalization and there are some new findings regarding drivers in this context. Future research should build on the insights from these case studies and also focus on the inter-relatedness of the external and internal factors driving internationalization.

These findings are obviously indicative and need to be further explored and tested – we suggest that at first more detailed cases studies involving in depth interviews of the owners or key decision makers in the firms should be done. We propose to use managerial cognition perspective to further this study in order to help understand cognitive process of owners of Malaysian SMEs regarding internationalization. This approach can also help in understanding the inter-relationships between different drivers particularly between the external drivers and internal drivers of internationalization.

Finally, this paper presents a work-in progress to explore the drivers of internationalization of Malaysian SMEs. We felt that a study was appropriate in the context of an emerging economy like Malaysia with a maturing manufacturing sector and a fast rising technology based service sectors. These findings are preliminary but seem to point towards drivers to internationalization – some that are familiar and also to some more contextual drivers for internationalization of SMEs. We are in the process of developing more cases studies and along with the findings of this paper we look forward towards arriving at a better framework to conduct a larger sample survey of SMEs across Malaysia.

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- Hartelaga (Gloves) : [www.hartalega.com.my](http://www.hartalega.com.my)

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