

Determination of SME's Internationalization in Malaysian Context

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Abstract

The increasingly tight competition urged SMEs to expand the market beyond national borders, not only for their growth and expansion but also to participate in the nations' economic development. Consequently, internationalization has become a vital component for any SME which necessitate enhancing our understanding on determinants of internationalization, particularly in emerging economies. To this end, a literature review is conducted to develop a new conceptual model. Certain variables are identified for influencing SME internationalization including export capability and networking capability. Additionally, it is proposed that the relationship between networking capability, export capability and SME internationalization might be mediated by competitive advantage. This study contributes to the scant literature on the determinants of the firm competitive advantage and its potential mediating role in the relationship between organizational capabilities and SME internationalization. Practically, the present study benefits policymakers and the government

in developing countries to outline the suitable policies and frameworks to produce more SMEs that are capable to exploit the international markets.

Key words: SME, internationalization, networking capability, export capability, competitive advantage, Malaysia

1. Introduction

Internationalization has been considered as a major prosperity in developing and maintaining economies over the boundaries. Sulaiman, Yusoff and Chelliah (2010), explained internationalization as the “process of adapting a firm’s operation to international environments”. According to Johanson and Vahlne (2009), internationalization is the development of networks in other countries through extension, penetration, and integration of business relationships. Indeed, internationalization is crucial for the growth of the firm and to enter international markets, with sustainability in the global market. It is also necessary that firms compete with other firms at the national, industry and firm level.

In the current globalized world, SMEs are considered a means for economic development, employment growth, innovativeness, and to compete in the global marketplace (Catanzaro and Teyssier, 2020). Internationalization has become the vital components for any SME in order to go further in expanding their business (Hasim *et al.*, 2018) as well as contributing to the national economic development (Dangi *et al.*, 2018). The reasons for enterprises participating in the international expansion are diverse as pointed out by Vătămănescu *et al.* (2019) as promoting competitiveness, dominating new markets, developing new business strategies, elevating their knowledge and assets, and designing trade opportunities. Abdullah and Zain (2011) stated that internationalization is a significant factor for the firms’ growth whereby the main reasons for internationalization are including market expansion, higher financial gains and learning new ideas. However, increasing profit is the main reason for internationalization. According to Nath and Liu (2017), among advantages of internationalization are communication technologies, opening the more emerging market from the national territory, solving international barriers for trade and commerce, lowering international market obstacles through the new regional economic ties, and consequently permission fostering competition.

Hence, there is a demanding request to develop over-border strategies for SMEs internationalization (Casey and Hamilton, 2014). Nevertheless, SMEs are suffering from challenges and barriers to internationalization. Several studies have highlighted these challenges and obstacles (Omar *et al.*, 2009) including resource disadvantages, lacking capabilities (Freeman, 2010), knowledge and scientific barriers, the rising cost of labour and inadequate institutional support (Ismail and Alam, 2019). SMEs are required to find identical solutions in overcoming these obstacles of international collaborating (Casey and Hamilton, 2014). They are in endless efforts in developing their firm-specific advantages and uniqueness to maintain, growth or progress for their survival (Zucchella and Siano, 2014). In this regard, the extant empirical evidence acknowledges that competitive advantage has a

positive and significant influence on the internationalization of SMEs (Sukaatmadja *et al.*, 2021).

Many past studies have been yielded in the field of international business worldwide. However, there are continues debates on the determinants of internationalization (Buckley, 2002; Buckley and Lessard, 2005). Accelerating the needs and requirements for goods and services have forced the companies to seek a larger scale as cross-border competition. In addition to that, Dangi *et al.* (2017) highlighted the need to study SME's internationalization dimensions for emerging economies which is a large area of study but not well developed yet. Despite the recent attention to the internationalization of SMEs, there are still several aspects of internationalization particularly in emerging economies which is not studied yet (Zahid *et al.*, 2018).

Determinants of internationalization in a general perspective are diverse. However, in most regions, these drivers have a considerable similarity and, in most cases, they are overlapped. These determinants can be perused in the following studies as network (Mei *et al.*, 2017), capabilities (Mishra *et al.*, 2014), and firms' competitive advantages (Hashim and Ariffin, 2016). From the capability's perspective, firms start the internationalization through dissecting a strategic plan such as internal capabilities and weaknesses, and also the environmental dimensions and opportunities namely social and business network, knowledge, internal and external resources and export capabilities. In this study, network capability and export capability are incorporated into the suggested model in addition to competitive advantage which plays a mediating role as it is explained in the following sections.

2. SME Internationalization in Malaysia

General elements affecting the internationalization of SMEs prominently are diverse based on the context in which SMEs are incorporating. Contextual elements are usually referring to the elements and components that are related to a specific area or domain/context. Malaysia's SME sector contributes 38.3% to GDP and 66.2% to total employment which provides job for over seven million people (SME Corporation Malaysia, 2019). One of the key initiatives for SME development is facilitating the internationalization of SMEs and encouraging them to go beyond the local market. Market expansion itself is the ability of SMEs to reconfigure their resources to enable them to meet the needs and expectations of consumers in overseas markets through their offerings and by doing it better than the competitor (Ismail and Alam (2019). However, in Malaysia, only 13.3% of SMEs engaged in the international market which is considered low compared to developed nations (Hasan and Uthamaputhran, 2020). Additionally, SMEs in Malaysia use a negligible portion of their potential, an average of 20.0% of their total products or services were sold abroad (SME Corporation Malaysia, 2019). Hence, identifying factors that influence the internationalization of the SMEs in Malaysia is a noteworthy topic.

In Malaysia, SMEs were on track to reach the goal of 41 percent country's GDP by the country's strategic development plan 2020 compared to 32.0 percent in 2012, and 37.4

percent in 2018, and heading to the new developing plan. The national macro targets under National Entrepreneurship Policy 2030 are to increase SMEs' contribution to GDP to 45.0 percent in 2025 and 50.0 percent in 2030. Malaysian SMEs practice strategies which are significant to be competitive in the international market. SMEs are small in their working capital, skilled workforce and assets are under the influence to a larger degree, especially those that are related to supplying products and trading or services to other businesses.

To have these goals in mind, the Malaysian government appointed several authorities to support Malaysian SMEs connections with large-scaled local or foreign-owned organizations. The number of 12 ministries in addition to 38 agencies have been assigned to audit and help with SMEs growth. The key public institutions in Malaysia include the Ministry of International Trade and Industry (MITI), National SMEs Development Council (NSDC), Ministry of Entrepreneurship and Cooperation Development (MECD), Malaysia External Trade Development Corporation (MATRADE), SMEs Corporation, Small and Medium Industries Development Corporation (SMIDEC), and Malaysian Industrial Development Association (MIDA). There has been a good support assisting companies entering international markets which indicates the justified perspective of the Malaysian government to support the internationalization of markets and businesses. Subcontracting, exporting, and collaborating are methods that the government takes to encourage internationalization through joint ventures, licensing, or franchising (Mori, 2005). It also has been active with regional agencies, as well as internal agencies, making contributions to them for SMEs development under the Association of Southeast Asian nations and Asia-Pacific Economic Cooperation. The government is aimed to provide opportunities and connections to encourage Malaysian SMEs venturing abroad and vice versa, enticing foreign corporations making linkages with Malaysian companies. The reason to create inter-firm linkages and connections is to help companies and businesses on a more successful international venture.

It is a necessity for SMEs to a better understanding of the key internationalization aspects which are increasingly influencing them to develop proper strategies to engage with challenges in the age of cross-border trades. Considering the new wave of the country's economic circumstances as outlined in the National Entrepreneurship Policy (2030) which enforced the policymakers in reengineering new economic plans, the new model of firm's internationalization is required besides the new perspectives on the previous concepts, definitions, criteria, and components of the constructs. Malaysian are facing more challenges based on the latest country's development plan (Ministry of Entrepreneur Development and Cooperatives, 2020). The low level of technological aspects, low level of investigations, research pools, professionals, and capitals for long term planning as well as access to financing (Falahat *et al.*, 2020).

The literature reveals that Malaysian SMEs are not involved in the international trade as much as expected (Ismail and Zakaria, 2018). The reason is the confined entrepreneurial directions of SMEs in this country. Based on reports released on this topic, Malaysian SMEs take less risk, lack innovativeness, and do not take part in aggressive competitions (Ismail

and Zakaria, 2018). In the Malaysian economy context, the level of internationalization has been growing increasingly since the start of the nations' development plans in the 1980s (Mohamed, 2015). Since then, Malaysian SMEs have been widely involved in the international market. A large volume of the country's economy is in the field of SMEs. As a fact, Ooi and Richardson (2019) confirmed that almost 95 percent of business establishments in Malaysia are SMEs. They also added that the policymakers of the SMEs are required to be carefully ensured about their planning and performing in their foreign engagements. Consequently, understanding and following internationalization have become essential for these firms.

3. Theoretical Foundation of the Study

For over five decades, internationalization has been the subject of extensive research enquiry and yet to date there appear to be no universally accepted theories of this concept (Mtigwe, 2006). The internationalization literature represents different theories and models to elucidate the firms' internationalization (Falahat *et al.*, 2017) including stage models; international new venture models; network perspective; the born-global and; resource-based view (Senik *et al.*, 2011). The details are described below:

- Based on the stage model or incremental approach, when businesses internationalize, they go through a series of incremental steps (Mtigwe, 2006). Incremental theories of internationalization state that “firms initially establish a strong base in the domestic market and slowly expand to foreign markets, one country at a time” which is geographically near the origin (Falahat *et al.*, 2017). Uppsala model is one of the most frequently used models among other stage models.
- International new venture models have a rapid internationalization approach positing that firms in fact leapfrog into internationalisation rather than doing so gradually (Chetty and Agndal, 2007). For instance, the international new venture (INV) is one of the theories with a rapid approach which postulates a business get into distant marketplaces, not necessarily markets that are geographically close to their border and enter not only one but several countries (Falahat *et al.*, 2017).
- From a network perspective, the network facilitates and accelerates firms' internationalization. Indeed, firms that establish networks obtain knowledge about international markets rather than competitors that do not form partnerships do (Sharma and Blomstermo, 2003; Franco *et al.*, 2020)
- Born Global is referred to as “knowledge-intensive” firms with a high knowledge of content and their goods and services are different from existing products (Sharma and Blomstermo, 2003). This type of firms, particularly SMEs, participate in international activities shortly after their inception (Zhou *et al.*, 2007).

- Resource-based view theory acknowledge internal resources of the firms and their capabilities such as “assets”, “skills”, “information” and “knowledge” which contribute to building competitive advantages (Falahat *et al.*, 2017)

Although the above-mentioned theories are applicable to SME internationalization research, it is required to choose the most suitable theories that are capable to support the proposed research model. The resource-based view theory is a well-established theory with a crucial role in highlighting the importance of intellectual capital in organizations. Intellectual capital encompasses organizational resources and capabilities that are valuable, uncommon, poorly imitable and non-substitutable (Kamukama and Ahiauzu, 2011). A firm can be considered as a collection of “physical resources”, “human resources” and “organizational resources” (Madhani, 2010).

According to this theory, firms’ resources that are “valuable”, “rare”, “imperfectly imitable” and “non-substitutable” are tactical resources that brings effectiveness for the firms; thus, helping them to achieve competitive advantage (Vaitoonkiat and Charoensukmongkol, 2019). The resource-based perspective formulates a strategy based on careful evaluation of available resources (Spanos *et al.*, 2004) as not all the resources of the firm will bring competitive advantage (Madhani, 2010). Competitive advantage is a result of “scarce”, “intangible” and “firm-specific assets” (Kamukama and Ahiauzu, 2011). In fact, competitive advantage is gained by those firms that succeed in mobilizing their intellectual assets in the form of knowledge, technological skills, experience and strategic capabilities (Kamukama and Ahiauzu, 2011).

There are two main assumptions in the resource-based view theory. First, the theory assumes that the firm’s internal resource and intellectual capital is a determining factor of competitive advantage in organizations (Kamukama and Ahiauzu, 2011). In other words, certain types of resources owned and controlled by firms have the potential and promise to generate competitive advantage (Ismail *et al.*, 2012). Second, internal resources and capabilities may be considered as inputs that enable firms to carry out their activities and to compete in their external business environment and expand in the new marketplace (Madhani, 2010). Indeed, the resource-based view explains the importance of internal drivers such as tangible and intangible resources for SMEs internationalization (Barney, 1991). While this theory focuses inwardly on the firm's resources and capabilities to account for firm profitability and value, this theory has a crucial role in the internationalization of SMEs (Grant, 1991; Peteraf, 1993). As cited by Senik *et al.* (2014), the resource-based view describes the critical role of internal drivers such as “tangible and intangible resources” for SMEs internationalization (Barney, 1991; Wiklund and Shepherd, 2005).

Applying the resource-based view to the context of this study, SMEs’ capabilities including export capability and networking capability can be considered as determinants of competitive advantage which consequently affect SMEs internationalization. Additionally, competitive advantage mediates the relationship between capabilities and internationalization.

4. Literature Review

4.1 Networking capability, Competitive Advantage and SME Internationalization

In the 1980s, by the time that most firms brought various networks into work to improve and develop their internationalization activities, the network model of internationalization got introduced. The definition of the network as a dyadic business relationship between two actors is suggested by Anderson *et al.* (1994). Johnsen and Johnsen (1999) describe a network as a collection of actors that will incorporate people, departments, businesses, and their connections to other bodies such as family and communities as well as financial or business alliances. The literature consists of a number of studies attempting to provide classification of different types and levels of networks. In general, there are three types of networks: 1) Institution networks that refer to supporting government agencies; 2) Business networks that include local/foreign SMEs or multinational companies; 3) Personal networks that include colleagues, friends, and relatives (Senik *et al.*, 2011; Udomkit and Schreier, 2017).

Although SMEs have been recognized as one of the main contributors to economic development, employment growth, innovation capacity, wealth creation (Hasan and Uthamaputhran, 2020), and global competition (Catanzaro and Teyssier, 2020), they usually fail to gain the knowledge required to get internationalized; instead, they prefer to rely solely upon in-house resources. Despite this limitation, SMEs are still capable of forming their own inter-organizational networks and get novel knowledge from what their network partners have experienced in different international business contexts; this way, they can overcome knowledge constraints (Sharma and Blomstermo, 2003). Networks contributes to gaining knowledge and information in regard with internationalization, such as marketplace information, work procedures, rules and regulation, and denoting important contacts for helping internationalization as well as potential customers or business partners (Udomkit and Schreier, 2017). SMEs networking is prominent in addressing both economic and social objectives; if such objectives are achieved, they can get more competitive on a global level, produce and spread innovations, create employment, and distribute wide-based income and welfare (Xiangfeng, 2007). In the Malaysian context, the finding of a research conducted by Foghani *et al.* (2017), found that SMEs involved in the network have greater potential to facilitate the successful incorporation of SMEs into internationalization. Similarly, Kontinen (2011) stated that available networks enable the firm's rapid internationalization.

One of the main goals that organizations peruse is to achieve a competitive advantage position relative to their competitors (Madhani, 2010). Capability and competency should create forces that push SMEs to be a source of competitive advantage (Lee *et al.*, 2019). To attain a competitive advantage companies must understand their internal strengths and weaknesses and their potential effects on the firm's competitive advantage (Falahat *et al.*, 2020). Company managers can receive helpful guides when deciding on a strategic business to enhance their overall position. Such guides may come from the information on the relative internal weaknesses/strengths of their corresponding companies (Ismail *et al.*, 2012). Since

SMEs suffer from many disadvantages such as scarcity of resources, underdeveloped innovation systems, and technological disadvantages, networking capability is a key factor that helps them to encounter the limitations and gain a competitive advantage.

Networking capability represents the main source of competitive advantage for SMEs. However, despite the crucial role of capabilities, the effect of networking capability on competitive advantage is still not well developed and needs further investigation (Falahat *et al.*, 2020). Additionally, although there is theoretical and empirical support for the relationship between networking capability and SMEs internationalization, there is still a lack of studies in the context of emerging economies (Catanzaro and Teyssier, 2020). Generally, networking capability has not been well-investigated through the research models (Falahat *et al.*, 2020), particularly at the international scale in Malaysian context. Therefore, the current research introduces the networking as a capability that affect Malaysian SMEs internationalization.

P1. Networking capability contributes to competitive advantage of Malaysian SMEs

P2. Networking capability leads to Malaysian SMEs internationalization

4.2 Export Capability, Competitive Advantage and SME Internationalization

Only SMEs with a high level of exploration capability, willing to take the risk and respond to opportunity aggressively may take the effort to further the international market (Dangi *et al.*, 2017). The resource-based perspective emphasizes that managerial choice in deciding which resources to acquire and develop, and how and when to develop them, is critical to organizational performance (Rond and Thietart, 2007). In the context of internationalization, there is a trend of increasing demand for more firms' capabilities (Falahat *et al.*, 2020). In this regard, the capabilities of SMEs are of critical competitive factors. SMEs put into perspective the rigidity of their boundaries and develop new flexible ways to reach their core capabilities and competencies (Borghoff and Welge, 2001). The capabilities and competencies are the most important characteristics for SMEs to succeed in internationalization either entering a foreign market or performing in international trade (Zhou *et al.*, 2007). This is due to their lack of tangible resources compared to their more resource-rich, larger counterparts (Escandon-Barbosa *et al.*, 2019).

The resource-based perspective also addresses the importance of export capabilities for the formulation of strategy. SMEs in each regional block has its own export capabilities and challenges entering the international market. Every country, particularly if it relies on foreign trade, has a vital interest in exploiting all its export opportunities (Alhogbi, 2017). A common assumption is that, from the viewpoint of a firm, exporting is a proper foreign market entry and expansion alternative (Katsikeas and Morgan, 1994). From a theoretical perspective, the resource-based view can be seen as guidance for the export activities of a company since it addresses the origins of competitive advantages by maintaining that the differences among the performance qualities of different companies are the result of the resources that might be the company' assets or capacities that could be implemented for the creation of unique

internal capabilities (Pham *et al.*, 2017). Evidences suggests that export capability is also crucial for Malaysian SMEs. Falahat *et al.* (2020) theorized the essential construct of export capability of Malaysian SMEs as the determinant of both competitive advantage and internationalization.

Although export capability is seen as a fundamental capability for SMEs, the empirical evidence testing the influence of export capability on competitive advantage is lacking, particularly in developing nations such as Malaysia. This due to the fact that renewed foreign market efforts are found as a proper means of combatting the economic crisis (Alhogbi, 2017). According to Ismail and Alam (2019) how SMEs in emerging countries build a competitive advantage remains a pressing issue that needs further deliberation.

Literature also has recognized capabilities that tend to provide an advantage and may impact the internationalization of SMEs (Jafari Sadeghi *et al.*, 2018). One of the important capabilities that facilitates internationalization is the export capability (Falahat *et al.*, 2020). Despite increased research attention contribution of export capabilities to competitive advantage (Murray *et al.*, 2011), relatively little has been concluded within an emerging economy. In view that SMEs can expand their market coverage through exporting, the government of Malaysia contently encourages SMEs to explore the international market for potential business growth (Falahat *et al.*, 2020). Therefore, the current study suggests the following propositions:

P3. Export capability leads to Malaysian SMEs internationalization

P4. Export capability contributes to competitive advantage of Malaysian SMEs

4.3 Competitive Advantage and SMEs Internationalization

Barney (1991) pioneered the concept of competitive advantage. He stated that a company will have sustainable competitive advantages if it uses the value creation strategies that are not used by rivals. Competitive advantages are a company's capabilities in performing its activities different from the rivals. Competitive advantage refers to the capacity of a company in performing its activities in such a way that other competitors fail to do so (Kotler Philip, 2000). Competitive advantage acts as a basis for a good strategy and, at a different level, a good strategy will result in competitive advantage (Todericiu and Stăniț, 2015). Indeed, competitive advantage is the reward of a company that is capable of creating economic value more than what its rivals create (Barney and Hesterly, 2010). Competitive advantages are those factors that require firms to succeed in their business programs (Todericiu and Stăniț, 2015).

According to Falahat *et al.* (2020) competitive advantage consists of two general dimensions: cost and product advancement. These dimensions have been defined and assessed through related factors namely firm costs, selling price, product quality, product uniqueness, product accessibility, guaranty/warranty, delivery speed, end customer service rating, customer satisfaction responsibility have been identified as the competitive advantage indicators in the

current research. Competitive advantage in foreign markets derives from the dynamic combination of several resources and capabilities (Raymond *et al.*, 2014). They may include technological innovation in products and services (Baden-Fuller and Haefliger, 2013) through the exploration and exploitation of knowledge, and/or market-oriented competencies such as customization and speed of delivery (McQuillan and Scott, 2015).

SMEs might search for competitive advantages through the commercialization of their new services/products in the markets of several countries (D'Angelo *et al.*, 2013). These services/products may be anything offered to a market for acquisition, attention, utilization, or consumption, which may meet some people's requirements. A part of a company's competitive strategies is what it sells in future. To accomplish this, each firm needs to design competitive offerings (Kenyon and Mathur, 2002). Product offerings can include both tangible and intangible items like fungible products and unforgettable experiences through services. As a result, every offering can comprise basic value propositions and their value-added extensions (Bowen and Ford, 2002). The development of a range of services to be associated with the sale of industrial products is worldwide known as a factor affecting the progress and competitiveness of a manufacturing firm (Malleret, 2006).

The competitiveness of a firm depends on its ability to create value. The firms that convert constraint into sale opportunity and offer a vast variety of complex services along with their products are more successful in the international markets (Malleret, 2006). Product services (additional services) refer to the ones supplied besides a certain product in order to facilitate or optimize the utilization of the product and enhancing the value of the product for the customer. This kind of addition differentiates a certain product, which can result in the retention of existing customers or attraction of new customers (Katsikeas, 2006).

The competitive advantage has different characteristics and elements in each context. In Malaysia, SMEs are certainly influenced by the local and regional components of competitive advantage that are required to be determined in the specific areas of SME counterparts. Also, despite the fact that other scholars investigated the influence of competitive advantage on internationalization, they were mainly concerned with large firms, leaving SMEs rarely investigated (Dangi *et al.*, 2018). Therefore, there is a need to investigate the influence of competitive advantage on Malaysian SEMs internationalization.

P5. Competitive advantage has a positive influence on SMEs internationalization

4.4 The Mediating Role of the Competitive Advantage

Competitive advantage is gaining increasing attention during the last few decades. To achieve the competitive advantage, companies need to have good strategies (Todericiu and Stăniș, 2015). Porter's (1985) arguments reflect the strengths, weaknesses, opportunities, and threats (SWOT) of the guideline for evaluating competitive advantage. Competitive advantage refers to the factors that a company is required to obtain in order to successfully run the business (Todericiu and Stăniș, 2015). On one hand, it is vital for SMEs to gain, preserve and increase their competitive advantage through the available resources. On the other hand, there is a

necessity for SMEs to do the external analysis with the end goal of identifying the opportunities and threats and do the internal analysis: to find the distinguishing competencies. Based on the resource-based view theory, the time competitiveness of a business relies on the level of customization and standardization of products and services that differentiate it from its competitors and are durable and difficult to imitate and substitute (Zaridis, 2009).

Merely knowing the fact that competitive advantage contributes to internationalization is not sufficient. It is more important to understand how competitive advantage is shaped and what are its antecedents. Despite the fact that competitive advantage has been recognized as an important topic for researchers, few studies analysed the potential mediating role of competitive advantage (Sukaatmadja *et al.*, 2021). Since SMEs need to be more proactive and utilize their resources and capabilities to become more competitive (Dangi *et al.*, 2018), it is worthwhile to examine the influence of organizational capabilities on competitive advantage as it is also suggested recently by Falahat *et al.* (2020). They argue that understanding the basic capabilities which contribute to competitive advantage may engage SMEs to explore international markets.

The mediating role of competitive advantage has been studied in the relation between SMEs' market orientation on internationalization and marketing performance in the Indonesian silver craft industry (Yuniari *et al.*, 2018). The result revealed that competitive advantage can mediate the influence of market orientation on internationalization and marketing performance. The briefly described investigations that contributed to mediating competitive advantage can be criticized in two general aspects; the coverage of the constructs and, being contextually constructed as the area of the study. First, the studies have not been comprehensive to cover all the factors affecting firms' performances on an international scale, while the variables of the models are also depending highly on the country of the scope of the study. Therefore, SMEs in the Malaysian domain are required to be investigated based on their circumstances and compatible conditions.

The study of Rua *et al.* (2018) assessed the important contribution of intangible resources and capacity that influence the firm's export activities with the mediating role of competitive advantage. The result of the study may have a solid sympathy with the current research mainly in terms of determining the mediating effect of the competitive advantage on the internationalization of the firms as depicted as export performance. Nevertheless, the way SMEs in developing countries create competitive advantages in international markets has remained an issue in need of further research (Ismail and Alam, 2019). Consequently, this study proposes that competitive advantage mediates the relationship between two key capabilities (export and networking capability) with SME internationalization.

Networks indeed provide companies with some imperceptible resources and a strong base of knowledge (Loane and Bell, 2006). These networks have significant effects on the worldwide expansion of SMEs. Companies can use such networks to gain access to numerous external resources; hence, coping with several problems such as compactness, foreignness, as well as their low capability in innovation (Lee *et al.*, 2010). Networks that work at an

inter-organizational level generally help companies to have knowledge of internationalization, which cannot be gained in any other way (Johanson and Vahlne, 2009). Apart from the direct impact of networking capability on competitive advantage, it is suggested to understand how networking capability impacts internationalization (Franco and Martins, 2020). That is, there is a need to understand the mechanism through which this capability impacts competitive advantage, both indirectly and through a mediator. Accordingly, the following propositions are developed:

P6. The relationship between network capability and SMEs internationalization is mediated by competitive advantage

P7. The relationship between export capability and SMEs internationalization is mediated by competitive advantage

5. SME Internationalization Model

Internationalization has become a critical issue for organizations to compete over the boundaries. For the economic regions, particularly those with competitive forms of resources, internationalization has been deliberated through the government in the long-range planning as well as specific strategies in the country’s developing plans and even lowering unemployment. Based on the provided literature, the following model is presented to determine SME internationalization in Malaysian context (see Figure 1). The model proposes networking capability, export capability and competitive advantage as antecedents of SME internationalization. Moreover, competitive advantage plays a mediating role on the relationship between both capabilities and SME internationalization.

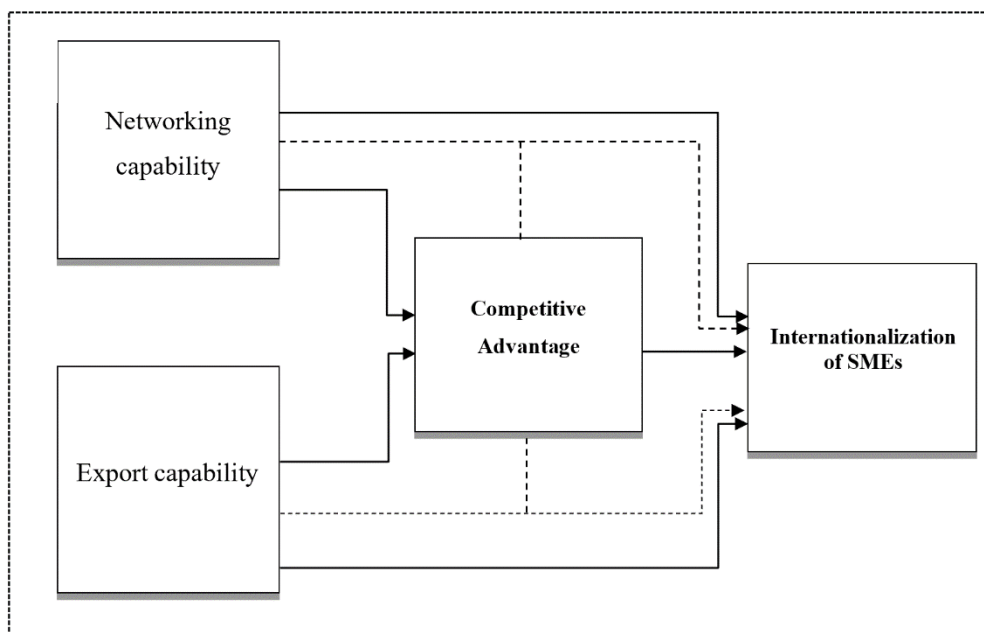


Figure 1. SME internationalization model (Source: Authors’ ellaboration)

This model is particularly useful for the context of Malaysia since internationalization of the SMEs follows an incremental approach rather than a rapid perspective, a very small portion of Malaysian SMEs involve in internationalization and SMEs with internationalization experience concentrate on ASEAN and China market. Moreover, a considerable portion of SMEs are first-time exporters (SME Corporation Malaysia, 2020). This indicates that SMEs in Malaysia do not enter international markets shortly after their inception and the vast majority of them may never be involved in international activities. Additionally, most of the SMEs that expand their markets, began with markets around Malaysia such as China where is close and may have similarities with the local market. Applying this model may benefit SMEs to improve internationalization efforts and be aware of factors that substantially impact internationalization. For instance, knowing the fact that networking capability contributes to achieving competitive advantage may encourage SME managers to build efficient and wide networks across the world.

6. Conclusion

The research encompasses a development of a model to determine SME's internationalization in the context of Malaysia and a proposal of variables named Networking capability, Export capability, Competitive advantage and SME internationalization. The competitive advantage was proposed to mediate the relationship between export capability and networking capability with internationalization. Since there is high demand and need for SMEs' internationalization, SMEs should follow more proactive strategies and use all the capabilities and resources to attain full potential and become more competitive.

This study contributes to the knowledge by providing new insights into SMEs' internationalization, particularly in Malaysia, the economy of which is classified as emerging. However, it is limited by the scope of the investigation which led to excluding factors that have the potential to impact SMEs' internationalization. It is worthwhile to investigate the influence of digital capability on competitive advantage and SME internationalization. Understanding the role of digitalization and its impact on internationalization is salient to all policymakers and SME practitioners that would like to embrace digitalization for better international performance. Additionally, further research could examine the influence of SMEs demographic characteristics on internationalization. It would also advisable to incorporating the role of government into the existing internationalization models. This will contribute to the body of knowledge by understanding the influence of government and national policies on internationalization.

Further research is required to empirically test the proposed model in this study. One of the suggestions raised from this research is to conduct in-depth interviews to understand the determinants of SMEs' internationalization. Qualitative research may be an eye-opener to find new factors that have the potential to impact the internationalization of Malaysian SMEs. The obtained factors from interviews can be integrated into the current models and may extend them. Finally, it would be useful to contribute to the body of the knowledge by

comparing the internationalization of SMEs with that of large companies in order to identify and analyse key differences.

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