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Research paper



Exploring the Barriers to Internationalisation for Malaysian SMEs

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Abstract

SMEs had posed a significant contribution toward Malaysian economy in term of GDP and a source of employment. However, in spite of internationalisation benefits that promote SMEs growth, Malaysian SMEs involvement in cross border activity is relatively low. Therefore, it is crucial for SMEs to mitigate such barriers that inhibit their cross-border activities in reaping the benefit offers by globalised marketplace. This study aims to determine the barriers to internationalisation faced by Malaysian SMEs. Qualitative method of research was employed, using asynchronous web-based semi-structured interviews. The interview questionnaires comprised eighteen questions and were designed and conducted using approved online interview guidelines. Twenty useable interviews were obtained and analysed using NVivo program in relation to qualitative content analysis technique. This study found that barriers to internationalisation faced by Malaysian SMEs were mainly due to firm's internal deficiencies that inhibit internationalisation. The findings can be used in the development of policy aimed at supporting and encouraging internationalisation among SMEs in Malaysia. The findings also contribute to the existing body of knowledge in SMEs study.

Keywords: *Internationalisation, SMEs, Barriers to Internationalisation, Internal Deficiencies*

1. Introduction

According to 2016 statistic on economic census, Malaysian SMEs had accounted 98.5% of total numbers in business enterprises establishment in three major industries namely the services, manufacturing, and constructions [1]. The average growth of Malaysian SME had surpassed the average growth of the overall national economy and this had resulted in significant contribution to national GDP by 36.6% in 2016 [2]. However, the positive growth towards national GDP, Malaysian SMEs seems lacked behind as compared to other middle-high income nation that contributes more that 40% to their national GDP [3].

Besides the benefits of Internationalisation of SMEs in pursuing global arena, SMEs from emerging economies (ESMEs) are bound to obstacles and barriers from internal and external [4] that makes ESMEs population in engaging cross-border activity are relatively low compared to developed nations that needs to be given attention. In the case, prior research had found that 50% of the Malaysian SMEs had ended up in bankruptcy within five years of establishment, and this is due to the inability to cope with global competitions and environmental change that needs firm to innovates in many ways to keep them in line with those changes [5].

Hence, mitigating barriers to Internationalisation has becomes a key issue in determining the success of internationalisation as ESMEs that are intrinsically bound to liabilities of newness, smallness and foreignness [6]. Consequently, this area of study may contributes new insights for business practitioners in make use of available strategies by boosting internal strength or seek external helps or by collective sufficiency of internal and external strategies in mitigating obstacles; to the policy makers to closely understand the liabilities that existed in SMEs in proactively crafting a more holistic helps & programs and initiatives policies that better suits the SMEs in mitigating barriers to Internationalisation.

2. Literature Review

Definition of SMEs (Small Medium Enterprises) is considered to be country specific that much relies on the geographic regions and economic settings of a nation [7]. In Malaysia, term SMEs and SMI for Small Medium Industry had been used interchangeably [8] that defined the scale of business by Industries, annual turnover and firm's headcounts [9]. As highlighted by [10], Malaysia defined SMEs specifically for manufacturing industry which sales turnover not exceeding RM50 million or full-time employees not exceeding 200 workers and specifically services and other sectors industry which sales turnover not exceeding RM20 million or full-time employees not exceeding 75 workers.

Internationalisation has become the vital components for any SMEs in order to go further in expanding their business. Internationalisation definition was synthesised as crossed national border economic activities by firm involves value creations [11,12] by having to adopt process of adaptation on strategy, structure and resources [13] that are commonly associated with FDI, licensing, franchising and the most commonly adopted by SMEs were exporting [14,15,16]. The previous studies had explored and identified challenges and obstacles faced by internationalising Malaysian SMEs and also barriers that hindered entrepreneurs to initiate cross border activities [17].

In more specific to Malaysian SMEs had identified the major barriers are the inability to access financial assistance [18], lack of internal resources and knowledge in developing global marketing techniques in branding, adaption to foreign demand and networking with others enterprises [19,20]. Relatively in another recent study found that Malaysian's SMEs are lack in competitive ad-

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vantage as a result from the social barrier that leads to inability to grab opportunities offered by globalised marketplace [21]. This study is focusing on exploring the possible other barriers to internationalisation faced by Malaysian SMEs were mainly due to firm's internal deficiencies that inhibit internationalisation.

3. Methodology

This study was an exploratory in nature and adopted qualitative approach which involves data collection samples from Malaysian SMEs and the target respondents are basically the owners and managers of a firm [22,23]. A total of 35 Malaysian SMEs form various industries were contacted via email and telephone in getting their agreement to participate [24], out of 25 invitations, 20 had agreed to participate. Completed and useable interview transcripts were obtained made a total of 80% of useable interview to be analysed.

It is paramount that in any research study to refer to secondary data as starting point in understanding the subject area that leads to conceiving research questions [25]. Moreover, secondary data is useful for primary data validation as to compare and contrast the result findings [26]. For this exploratory research study first bit was started by collecting secondary data from available sources, in this case was from relevant books, e-journals, reports and statistics from organisations such as OECD, UNCTAD, SME Corp, HDC, and MATRADE.

Table1: Background

Business Background	Firm's Size	Interviewee Position
Service of Gas Piping Equipment	Medium	Owner
Service Information Technology	Small	Manager
Event Management	Small	Manager
Manufacturing of Building Material	Medium	Manager
Stationaries Chain Material	Small	Owner
Logistics	Small	Owner
Warehousing	Medium	Manager
Merchandising and Gifts	Small	Owner
Packaging, Designing, and Printing	Medium	Owner
Frozen Food Products	Small	Manager
Canned Food Products	Medium	Manager
Confectionary and Snacks	Small	Owner
Handcrafts Products	Small	Owner
Solar Energy Products	Medium	Manager
Disposable Medical Products	Medium	Manager
Cooking Materials Products	Small	Owner
Electrical Appliances Products	Medium	Manager
Beverages Products	Small	Owner
Food and Coffee Based Products	Small	Owner
Kitchen Utensils Supplies	Small	Manager

4. Findings

Findings on primary data, twenty samples of Malaysian SMEs 60% of the samples are from small size enterprise and the remaining 40% are medium enterprise. All samples involved in cross-border activities with the most adopted mode of entry was exporting, recorded the highest percentage of 40% followed by partnership recorded at 40% and 20% respectively, joint ventures 20%.

The interviews also found that barriers that associate with informational factors had received the highest quotations of ten firms that considered it as barriers to internationalisation which are lacks market knowledge and inability to understand foreign customer wants and needs. Hence, 50% of interviewees reported they faced it which perceived as an internal barrier that hindered them to expand geographically. In term of numbers of comments received, products related barriers seem less illuminates among internationalised Malaysian SMEs. Clearly, it had shown that this barrier of product related are highly involves with local standard requirements, high competition products with huge numbers of competing producers and products with sensitivity on health and safety concerned.

Overall findings were consistent with [27] regarding SMEs internal barriers that grouped it into informational barriers as inability to identify, contacting and selecting international market. Relatively, the findings also uncovered that these barriers have a close in link to resource deficiency that been termed in earlier studies by [28] and [29] as firm's inability to create a competitive advantage in international market by having an inefficient exports marketing to adapt or meet foreign market. [30] considered these barriers as giving very high impacts towards inhibiting firms in engaging internationalisation through exporting activities.

Evidently, barriers of products related industries are highly involves with local standard requirements, high competition products with huge numbers of competing producers and also products with sensitivity on health and safety concerned. Likewise, lacks of foreign business networks also one of the internal deficiencies among SMEs in Malaysia which 80% of the samples confirmed themselves of having lacking in contacts with foreign distributers had hindered them to exports their product to target foreign markets.

Other than that, this study finding also in line with [31] studies on SMEs in manufacturing that relates perceived barriers that ingrained internally are basically initiated from the absents of owners/managers commercial orientation, strategic vision as well as international experience. Another internal deficiency found in this study is that the influence of company managements towards risk adverse attitude that themselves lacks in confidence about their products competitiveness, hence, result in reluctance to proactively engaging internationalisation. In fact, perceived barriers that ingrained internally are basically initiated from the absence of owners/managers commercial orientation, strategic vision as well as international experience.

5. Discussion

The study findings had discovered several issues on Malaysian SMEs regarding internal deficiencies on getting their business overseas. Barriers due to intensify international competitions that initiated from government initiatives toward economic liberalisation was found contradicted and less significant. Other barriers to internationalisation seem consistent with previous study. Moreover, internal strength in mitigation barriers to internationalisation seems the most striking. Collective sufficiency becomes prominent strategy for SMEs that possessed some internal strength but

lacks in confidence, networking, and international business experience.

Research had found that Malaysian SMEs pursue internationalisation are more inclines toward market seeking and the most adopted mode of entry was exporting. The analysis on the barriers to internationalisation had concluded that barriers to internationalisation faced by Malaysian SMEs was due to firm's internal deficiency that highly impacts on inhibiting Malaysian SMEs to internationalise. Likewise, other barrier that associates with internal seems to be consistent with previous study on SMEs in different counties [32,33]. Moreover, research found that inability to find foreign representative and affiliates are much likely initiates from the firm's internal deficiency in developing foreign business networks. Hence, Malaysian SMEs are much to strengthen its internal resource and networking that seems to have a high impact on inhibiting Internationalisation in case of Malaysian SMEs.

6. Conclusions and Future Research

In the nutshell the research study had addressed the research questions and the exploration had uncovered the relative importance of firms' internal strength in mitigation barriers to internationalisation. Despites, the contributions made by adding more literature towards internationalisation of SMEs from Malaysian perspectives, this research a bound to certain limitation in exploring the phenomenon studied.

Limitations of this research are mainly due to time constrain and financial. This had much influence on sample size is rather small and limits on generalisation of empirical findings, and usage of web-based interview and only focus on qualitative approach. Hence, this research provides few recommendations for future research, Future research should include bigger sample size of Malaysian SMEs that involve various industries so that it will explore in greater detail. It is also recommending to include other method in conjunction to face-to-face interviews such as focus group discussion in obtaining data richness and to add validation and to reduce biasness.

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