The Internationalisation of Small and Medium Sized Enterprises in a Small Emerging Market: A Study on the Malaysian Service Sector

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ABSTRACT

This paper explores the internationalisation path of small and medium sized enterprises (SMEs) from a small emerging market. In particular, it studies the internationalisation decision making process, the challenges and unique capabilities of SMEs in service sector. Multiple case study approach will be adopted, with cases drawn from the business training and consultation industry in Malaysia. The Uppsala Model is used as guidance or to be revised in order to precisely analyse the internationalisation behaviour of the firms from emerging market especially the SMEs in service sector. The interviewees will be the founders and/or the key decision makers for internationalisation activities in the firms. Employees (decision executors) from the firms will also be interviewed.

Keywords: Internationalisation; Uppsala/Stages Model; Small-and-Medium-Sized Enterprises, Emerging Market
1. Introduction

1.1 Internationalisation in International Business Research

Research on firm internationalisation has been a central component in the International Business (IB) scholarly discourse since as far back as the 1950s. Although the early studies focused mainly on large multinational enterprises (MNEs) in advanced economies, particularly the US and Western Europe (Dunning 1958; Johanson & Vahlne 1977; Vernon 1966). Rapid advances in information and communication technologies (ICT) and the lowering of trade barriers have opened the doors to more and more small- and medium-sized enterprises (SMEs) to join their larger counterparts on the international stage. The research agenda quickly picked this up and the internationalisation of SMEs is now a common feature in IB journals (Kaynak, Tatoglu & Kula 2005; Knight, G 2000; Todd & Javalgi 2007). To be sure, IB researchers are not the only group of management scientists investigating this phenomenon. Scholars from a wide range of management disciplines have shown growing interest in the issue, including Marketing (Olejnik & Swoboda 2012; Whitelock 2002), Strategic Management (Lu & Beamish 2001), International Management (Bell, McNaughton & Young 2001; Forsgren 2002), and Small Business Management (Daniel, Wilson & Myers 2002; Ruzzier, Hisrich & Antoncic 2006). However, Vogel (2015) alerted that recently there was a decline in the articles published in international management journal. As more countries are participating in international business more research on firms’ internationalisation activities are required to propel the knowledge and development of the internationalisation activities.

The majority the internationalisation research has focused on the context of the United States, China, and Western Europe, with scholars striving to understand (1) the development, pattern and management of internationalisation activities, (2) factors that promote or hinder
internationalisation, and (3) knowledge, capabilities, learning experience and entrepreneurship during internationalisation. However, contextual differences between developed and emerging economies are substantial (Gaur & Kumar 2010). This include the differences on the cultural, the level of social, economy and political development among these economies (Harvey, Speier & Novicevic 1999). Research methodology and design (quantitative and qualitative research methods) mostly derived from the Western context have been applied to the study of firm internationalisation activities around the globe (Marschan-Piekkari, Rebecca & Welch, Catherine 2004; Peng, Peterson & Shyi 1991; Thomas 1996). Environmental complexity and business culture differences in emerging economies demand local responsiveness on their business conducts (Luo 2001).

1.2 Internationalising Small and Medium Sized Enterprises

Foreign market entry is increasingly vital for small and medium sized enterprises (SMEs) due to their increased exposure to domestic and foreign competition. Nevertheless, internationalising SMEs also face unique problems when compared to larger organisations, particularly due to their more limited resources. Therefore, SMEs have to ensure that their foreign expansion is planned and conducted carefully. Traditionally, SMEs focused more or less exclusively on domestic business, with the international business arena being largely the domain of larger firms with more substantial resources. Over time, however, as globalising forces enabled—and, increasingly, even compelled—SMEs to expand beyond their home country’s borders, scholars noted a particular pattern, namely, that there was a preference to initiate internationalisation in culturally ‘close’ (i.e., similar) markets (Kontinen & Ojala 2010; Kuivalainen et al. 2012; Sandberg 2012). Internationlisation in cultural close markets enabled SMEs to accumulate internationalisation knowledge and experience in markets perceived as being less risky and unpredictable, before allowing for further international expansion in
culturally more ‘distant’ markets (Bell, McNaughton & Young 2001; Hashai & Almor 2004; Olejnik & Swoboda 2012).

1.3 Globalisation

Increased interdependency and interrelatedness among economies around the world involves knowledge sharing, cultural convergence, policies transfer and economic integration among countries (Al-Rodhan & Stoudmann 2006; Archibugi & Iammarino 2002; Knight, G 2000). Globalisation has increased the participation and contribution of small emerging markets to the world economy (Pangarkar & Yuan 2009; Thai & Chong 2008). The improvement of information communication technologies together with gradual removal of world trade barriers and the integrating of the world economy have enabled SMEs in small emerging markets to compete in markets outside their home country—something that small firms in the 1970s (when the Uppsala model was first introduced) did not enjoy. These efforts include the international sourcing, production, and marketing as well as cross-border alliances from product development until its distribution (Rasmussen & Madsen 2002).

Internationalising firms from emerging markets are adopting unique strategies to compete and excel in international business (Pattnaik & Elango 2009). However, studies on SMEs’ internationalisation from small emerging markets are minimal (Hipsher 2006; Kuivalainen et al. 2012; Thai & Chong 2008). Firms from small emerging markets face a number of unique challenges: relatively small populations, limited resources, strong international competition, inadequate law protection - especially on intellectual property, and less government support as they compete in the world economy (Venner 2009). As they become increasingly involved in IB, more tailored research is needed to understand and help such firms overcome these challenges. This paper will explore the internationalisation path of SMEs from a small
emerging market. It attempts to explore the initial internationalisation decision making process, and the challenges and unique capabilities of SMEs to overcome these challenges.

1.4 Research Question

The paper seeks to address the following questions:

1. How do SMEs in small emerging markets initiate their internationalisation (entry mode strategies), and why do they adopt this/these entry mode(s) strategy/strategies?
2. Which international markets do they enter and why?
3. What are the strategic challenges faced by SMEs from small emerging markets?
4. How do SMEs in small emerging markets excel in international business, given their limited resources and the intense competition they face from SMEs/MNEs from large emerging/developed markets (such as China, India, the United States, and Europe).

1.5 Research Objective

The objective of the study is to shed light on the distinct mix of orientation, capabilities and strategies that allow SMEs in small emerging markets to succeed in global competition. The study will increase resource allocation efficiency makes SMEs in small emerging markets possible to sell a variety of product and services better to anywhere in the world especially in for niche market.

2.0 Literature Review

2.1 Internationalisation

Johanson and Wiedersheim-Paul (1975) described internationalisation as firm’s attitude towards foreign activities or the actual business activities carrying out abroad. The authors claimed that there is a close relationship between attitudes and actual behaviour during firm’s
internationalisation. The attitudes are the basis for the firm’s decisions to undertake international activities while international experiences influence these attitudes.

Three studies explain firm internationalisation behaviour: (1) Uppsala approach / stages model (2) Transaction Cost Analysis (3) Eclectic Paradigm. Uppsala approach is to study firm’s internationalisation process and stages. Transaction cost analysis analyses the difference between prevailing price and actual price of the internationalisation activities to determine the effectiveness of firm international portfolio investment. Eclectic paradigm or OLI-model is developed by John H. Dunning in 1993 for firm to determine the beneficial to pursue foreign direct investment based on organisation, location or internalisation advantage analysis. In this research, Uppsala approach will be the underpinning theory to study the internationalisation behaviour of the firm and also to test the relevant of Uppsala approach in small emerging market.

2.2 Uppsala Approach

Internationalisation studies began when Johanson and Wiedersheim-Paul in 1975 studied the characteristic of the internationalisation process of four Swedish firms – Sandvik, Atlas Copco, Facit and Volvo. These firms sell more than two-thirds of their turnover abroad and have production facilities in more than one foreign country. Firm is assumed to internationalise through sequential incremental decisions and learning process (Johanson & Vahlne, 1977). Firm first develops domestic market then starts selling abroad via exporting or independent representative to neighbour or low psychic distance countries. The major obstacles for firm to internationalise are lack of knowledge and resources. If perceived risk of investment market decreases, a firm demands for international expansion increase and it increases the need of the firm to control and stimulate the continuation of internationalisation.
Psychic distance is one of major risk involved during firm’s internationalisation. It refers to set of factors preventing and disturbing the flow of information between the firm and the market, including differences in language, culture, political system, level of education or level of industrial development (Johanson & Vahlne, 1990). Psychic distance and the size of potential market play a major role in influencing the firm’s decision about the extension of activities to new market. Psychic distance changes in accordance to the level of social exchange, trade and information communication system development.

Over time, as a firm progressively increases its knowledge of international business, it will increase its commitments and involvements in foreign markets in a series of stages (hence why the Uppsala Model is sometimes referred to as the Stages Model). Knowledge and information from the initial internationalisation experience will be used as the guidance for next level of international business expansion (Johanson & Vahlne, 1977; Knight & Cavusgil, 2004; Whitelock, 2002). Experiential learning is accumulated by firms through decision-making, business conducts and risk management in foreign businesses (Carlson, 1966, 1975; Forsgren, 2002; Johanson & Vahlne, 1977).

Johanson and Vahlne developed a dynamic model to devise the state and change aspects of internationalisation. The outcome of decision usually is the one cycle of events, will be the inputs of the next level of internationalisation decision. It affects perceived opportunities and risks then influence commitment decisions and current activities. To be precise, the current state of internationalisation is one important factor explaining the following internationalisation actions or change as in expression below.

\[ \Delta I = f(I \ldots) \]

where
I = state of internationalization
The mechanism is illustrated in Figure 2.1

**Figure 2.1: The Business Internationalisation Process Model (Uppsala Model)**

Assumption:

- Firm strives for growth and to increase long term profit
- Firm strives to keep at low level risk
- These striving characterize decision making at all levels of the firm
- With given premises and economy state

(Johanson & Vahlne, 1977, 1990)

The state aspects are the resource committed to the foreign market and the knowledge and experience about the foreign market while the change aspects are decisions for the future investment or resource to commit and the performance of current business activities. Market knowledge and market commitment are assumed to affect the commitment decisions and the performance of current activities to develop change knowledge and commitment from the firm for future activities (Aharoni, 1966). Market commitment is the amount of resources committed and the degree of firm’s commitment in foreign market.
Penrose (2009) has been classified knowledge based on the way in which knowledge is acquired, objective knowledge and experience knowledge. Objective knowledge can be taught while experiential knowledge can only be learnt through personal experience. Firm experience and market experience are important to be integrated during internationalisation process. Although current activities are the prime source of experience, firm can gained experience knowledge through hiring personnel with experience or through advice from persons with experience. Firm’s commitment decision is based on knowledge such as:

1. Knowledge of opportunities and problems.
2. Knowledge about market environment and various activities performance for alternatives evaluation.
3. Knowledge about present and future market demand and supply, competition and channels for distribution.
4. Knowledge about varying condition for timing and countries.

However, sometime the kind of experience knowledge is not available especially if the product or services is new to the market. The firm has to be acquired the knowledge through long learning process with current activities. This may explains why sometime the internationalisation process is slow.

For the change aspects, it considered current activities and their consequences. Most of the time, time lag is considerable to make current investment effective or to bring result whether it is successful or failure. In fact, firm may not aware the consequences of the activities until the activities repeated a few times continuously. The longer the time lag, the more commitment is required from the firm. Marketing investment is playing an important
commitment and an increasing commitment to the market. The more complicated or differentiated the product is, the larger the total commitment including marketing investment. The consequences if the investment also will be great. The change aspect also influences the decision of the firm on the resources to commit to foreign operations.

In 2009, Johanson and Vahlne revised the Uppsala model to acknowledge the importance of business network in firms’ internationalisation. Business networks are connected business relationship between stakeholders - competitors, suppliers, customers, distributors and government (Forsgren, M & Johanson 1992). Firms can gain knowledge from other firms through their business relationships and networks without having to go through the same learning experiences as these firms (Forsgren 2002). The mechanism is illustrated in Figure 2.2

**Figure 2.2: The Business Network Internationalisation Process Model**

![Figure 2.2: The Business Network Internationalisation Process Model](image)

(Johanson & Vahlne, 2009)

Learning, commitment and business networks are important to identify and exploit international opportunities (Johanson & Vahlne 2009). Knowledge, trust and commitment in a
network relationship may enhance the prospects for successful internationalisation, as recent internationalisation studies have demonstrated (Johanson & Vahlne 2009; Zain & Ng 2006; Zhou, Wu & Luo 2007). Accelerated internationalisation has gained momentum in recent years (Bangara, Freeman, & Schroder, 2012; Pla-Barber & Escribá-Esteve, 2006).

However, existing conceptualisation in firm’s internationalisation is based on large experienced firm with mass manufacturing production or mass customisation. The model was developed in 1970s whereby scholars from Uppsala University did pilot studies to test idea about industry work. When Johanson studied on steel industry during 1966, he concluded that theories didn’t fit in the actual practise in steel industry. When the internationalisation model was developed, it disregards decision making style of the decision maker. (Johanson & Vahlne, 1977). Fillis (2001) indicated that testing existing conceptualisation and forming new framework based on industry based studies is needed in order to advance the internationalisation theory. As quantitative studies dominated the internationalisation study, it slow down theory generation as more small firms begins to internationalised rapidly in the market. Product, firm size, industry type, owner and cultural characteristic impact internationalisation behaviour (Fillis, 2001). Rao and Naidu (1993) stated that issue on internationalisation has tend to dealt with conceptual or theoretical than empirical.

2.3 Entry Modes

As firms internationalise their activities, the choices of entry mode are commonly treated as a “frontier issue” and very important strategic decision (Agarwal & Ramaswami, 1992; Anderson & Gatignon, 1986; Herrmann & Datta, 2006; Werner, 2002). Internationalisation firms are being distinguished into four different stages according to the degree of involvement, resources committed:
(1) No regular export activities
(2) Export via independent representatives (agent)
(3) Sales subsidiary and
(4) Production/manufacturing

Export reduces market development costs and it helps to determine the nature and size of the market. As the market develops, warehouse facilities are developed follows with sales branches and subsidiaries. Selling subsidiaries allows slow development of manufacturing line from repairing, packaging, mixing, processing, to assembling or finishing then finally to full manufacture (Behrman, 1969). More resources commitments, information and different market experiences are required by the firm as they increase their involvement in the foreign markets.

Quer, Claver, & Rienda (2007) agreed that choosing the most suitable modes of entry in different countries is one of the most relevant strategy decisions that a company must adopt during its internationalisation process. However, sequential incremental patterns of internationalisation: business expansion from low to high psychic distance countries; entry modes from export to wholly owned subsidiary may not be the optimum resource allocation to the host countries. Adjustment to the changing conditions in different countries is needed by critical review and evaluation on ways to enter and exploit foreign markets. Certain firms may directly enter into joint ventures or set up subsidiaries in high psychic distance countries during the early stages of their internationalisation (Hipsher, 2006; Ojala & Tyrväinen, 2009; Thai & Chong, 2008; Zhang, Duysters, & Filippov, 2012). For example, a number of emerging market firms (EMFs) have leapt from no involvement or simple exports to direct investments in foreign subsidiaries (Lecraw, 1993). Luo and Tung (2007) suggested that
EMFs overcome their latecomer advantage in the international market by aggressive acquisitions of assets from nature MNEs. Latecomers and newcomers especially those from Asia Pacific are remarkable success in the global economy with their accelerated internationalisation, strategic and organisational innovation that complement the characteristic of emergent global economy (Mathews, 2006).

In addition, every country has its own unique condition to response: population, religion, politic, legal framework, local demand and preferences. Different problems and opportunities in each country constitute unprecedented and unparalleled cases for firms. Previous internationalisation experience may not assist future business expansion if the culture and nature of business conducted in a particular host country is different. However, Forsgren (2002) suggested that resources allocated to host countries, if strategically managed, are not competing but complementing in international business efforts. Existing international theories are incomplete to explain or predict the behaviour actually observed in firms especially on its dynamic internationalisation process in different countries (Axinn & Matthysens, 2002; Forsgren, 2002; Sim, 2005, 2012).

2.4 Small and Medium Sized Enterprises in Emerging Markets

Small and medium sized enterprises (SMEs) are independent entity managed by its owner or business partners. Their businesses can be registered as a sole proprietorship, partnership, corporation, or any other legal form.

Different countries have their own standard definition to define small and medium sized enterprised. In Malaysia, the definition of SME is based on three criteria, the industry type, annual sales turnover and the number of people employed in a company. For manufacturing
sector, a company is define as small company if the sales is in between RM 300,000 to less than RM 15 million or the total full time employees is from 5 to less than 75 people. A company will be categorised as medium sized company if it is earning from RM 15 million to RM 50 million annual sales turnover or full time employees is in between 75 to 200 people. For service sector, a company is categorised as small company if it is earning from RM 300,000 to less than RM 3 million or a total of 5 to less than 30 full time employees. A company in service sector must earning RM 3 million to less than RM 20 million sales turnover or 30 to less than 75 full time employees in order to qualified as medium sized company (SMECORP, 2014).

SME Corporation Malaysia-SMECorp is the dedicated agency that was appointed by Malaysia National SME Development Council (NSDC) to propel the development of SMEs in Malaysia. It formulates policies and strategies for SMEs, provides infrastructure facilities, financial assistance, advisory services, market access and other support programs in order to develop capable and resilient Malaysian SMEs that competitive in the global market (SMECORP, 2015).

**Table 2.1 SME in Malaysia**

<table>
<thead>
<tr>
<th>Category</th>
<th>Small</th>
<th>Medium</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Manufacturing</strong></td>
<td>Sales turnover from RM300,000 to less than RM15 million OR full-time employees from 5 to less than 75</td>
<td>Sales turnover from RM15 million to not exceeding RM50 million OR full-time employees from 75 to not exceeding 200</td>
</tr>
<tr>
<td><strong>Services &amp; Other Sectors</strong></td>
<td>Sales turnover from RM300,000 to less than RM3 million OR full-time employees from 5 to less than 30</td>
<td>Sales turnover from RM3 million to not exceeding RM20 million OR full-time employees from 30 to not exceeding 75</td>
</tr>
</tbody>
</table>

(SMECORP, 2014)
According to SME Census 2011 conducted by SME Corporation Malaysia, SMEs constituted 97.3% (645,136) of total establishments (662,939) in Malaysia and generated 3,669,259 employments in Malaysia. Among the sectors, services sector was top ranked with 90.1% (580,985) of SMEs are from service sector. It followed by manufacturing (5.87%), Construction (2.98%), Agriculture (1.04%) and Mining and Quarrying (0.06%). In Malaysia, SMEs in service sector generated 2,610,373 employments.

### Table 2.2: SME Profile

<table>
<thead>
<tr>
<th>Sector</th>
<th>Total Establishments</th>
<th>Total SMEs</th>
<th>Percentage (%) of sector over total SMEs</th>
<th>Total Employments by SMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall Total</td>
<td>662,939</td>
<td>645,136</td>
<td>100</td>
<td>3,669,259</td>
</tr>
<tr>
<td>Services</td>
<td>591,883</td>
<td>580,985</td>
<td>90.05</td>
<td>2,610,373</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>39,669</td>
<td>37,861</td>
<td>5.87</td>
<td>698,713</td>
</tr>
<tr>
<td>Construction</td>
<td>22,140</td>
<td>19,283</td>
<td>2.98</td>
<td>275,631</td>
</tr>
<tr>
<td>Agriculture</td>
<td>8,829</td>
<td>6,708</td>
<td>1.04</td>
<td>78,777</td>
</tr>
<tr>
<td>Mining &amp; Quarrying</td>
<td>418</td>
<td>299</td>
<td>0.06</td>
<td>5,765</td>
</tr>
</tbody>
</table>

(SMECORP, 2011)

SMEs are important for emerging markets as they provide employment opportunities and, collectively, serve as a major driver for the country’s economy (SMECORP, 2014; Todd & Javalgi, 2007). The contribution of SMEs helps nations to achieve macroeconomic growth. Thus, the survival, growth and success of SMEs are considered an important objective for
policymakers (Todd & Javalgi, 2007).

The advancement of ICT, production methods, and international logistics create an opportunity for SMEs in small emerging markets to participate in IB. SMEs utilise ICTs such as the internet to connect to the world and to facilitate their global business especially the global e-commerce (Bell, McNaughton, & Young, 2001; Cavusgil, Ghauri, & Akcal, 2012; Knight & Cavusgil, 2004; Todd & Javalgi, 2007). 67% of SMEs in Malaysia are using internet to facilitate their business operation (SMECORP, 2011).

However, in addition to scarce financial, human, tangible and intangible resources, these firms must respond to those individual countries’ unique conditions (Phillips McDougall, Shane, & Oviatt, 1994; Zhou, Wu, & Luo, 2007). SMEs’ internationalisation from emerging markets is relatively new and thus exposed to considerable risk on the international business stage due to their lack of experience. Increasing global competition reduces the ability of SMEs to control their own development paths in international markets (Etemad, Wright, & Dana, 2001). Innovative, knowledge and capabilities during internationalisation are important for SMEs to achieve international business prowess (Knight & Cavusgil, 2004; Verheugen, 2005).

2.5 Emerging Markets

In the 1980s, World Bank economist, Antonio van Agtmael, introduced the concept of ‘emerging market’ to add to the existing classification of countries as being ‘developed’, ‘developing’, or ‘less developed’ (Van Agtmael, 2007). Markets are considered ‘emerging’ according to their economic and political developments and reform. These countries are restructuring their economies along market-oriented trends, with stable currencies and
transparent markets, as part of efforts to build investor interest. Their political orientation, which tends towards entrepreneurship and free enterprise, offers a wealth of opportunities in trade, technology transfer, and foreign direct investment (FDI). They usually serve as regional powerhouses and encourage other similar transitional societies to undertake political and economic reform (Aghara, Anyanwu, Nwaizugbo, Okpala, & Oparah, 2011; Heakal, 2009).

According to Julian Vercueil (2012), emerging markets are experiencing rapid economic growth. National intermediate incomes, institutional transformations and economic growth are the three characteristics of emerging markets. Purchasing power parity (PPP) per capital in emerging markets reached 75 percent of the European Union per capital income average. In other words, the income gap between emerging and advanced economies is narrowing (Kalinowski, 2014). Further, emerging markets are experiencing growth in local and foreign investment (Heakal, 2009). As countries ‘emerge’, however, the challenge of resource scarcity becomes more apparent. These challenges include underdeveloped capital markets, incomplete local infrastructure, lack of skilled labour, inadequate law protection and enforcement, and environment and ethical issues (Luo & Tung, 2007).

*The Economist*, International Monetary Fund, and other market indexes have their list of emerging markets. The four largest emerging economies by nominal or inflation-adjusted GDP are Brazil, Russia, India and China—commonly referred to as the BRIC countries (Economist, 2013; Vercueil, 2012). Bloomberg in 2014 developed its ‘best emerging market’ listing. In numerical order, this list includes China, South Korea, Malaysia, Chile, Thailand, Panama, Peru, Latvia, Poland, and the Czech Republic (Bloomberg, 2014). The data were derived from Bloomberg's financial-market statistics, IMF forecasts, and the World Bank. These countries were also rated on areas of particular interest to foreign investors such as the
ease of doing business, the perceived level of corruption and economic freedom. According to the World Bank (WDR, 2011), the B RIC countries with South Korea and Indonesia will lead the growth of world's economy by 2025.

2.6 Small Emerging Markets

To date, there are no adequate or precise definitions and measurements to allocate the country into big or small country and it is debatable (Magnette & Nicolaïdis, 2005; Thorhallsson, 2006). Many organisations and scholars have different definitions of what constitutes a ‘small’ state. Commonwealth (1997) defined a small state as a country with a population of less than 1.5 million. Simon Kuznet (1958) used a threshold of 10 million. From 1.5 million to 10 million it is a huge gap in definition. No single definition precisely describes what a small state is, whether in terms of population figures, gross domestic production, or geographic size, because size is a relative concept (Kuznets, 1958; Reiter & Gärtner, 2001; WorldBank, 2007). Indonesia, for example, is significantly larger than Brunei but smaller than India. Singapore is a small nation but it serves as a major player in international trade and affairs. Substantial disagreements have been raised on the criteria that characterise the small state. Consensus on what defines a small state is needed to overcome different definitions that established (Maass, 2009). In an increasingly integrated global economy, the market size of a country is often larger than its political size (Alesina, 2003).

Most small states are clustered in the Caribbean, the Pacific and in Africa and small states constitute more than a quarter of World Bank member countries (WorldBank, 2014b). Some small nations have valuable natural resources such as oil and diamonds while others have inclined towards tourism and finance activities. The challenges facing firms from small nations include diseconomies of scale of production, marketing, distribution and public
administration; small populations with limited physical space; and limited resources and
capacity for competing and negotiating with larger nations and private sector entities (Alesina,
Spolaore, & Wacziarg, 2005; Venner, 2009). They are also particularly vulnerable to
economic shocks, income volatility and susceptible to natural disasters and climate
(WorldBank, 2014b). 2008 global financial crisis and food and energy crisis had a negative
impact on small nations by lowering their national productivity (Venner, 2009).

Alesina, Spolaore & Wacziarg (2005) stressed that country size is important during
international trade as it affects the cost and benefit for the companies. Companies need to
achieve economies of scale in production in order to leverage their cost of production.
Companies in larger countries may enjoy this benefit as they serve big populations in their
domestic market. Small countries, on the other hand, have to overcome the hurdle of a small
domestic market through the improvement on international trade to increase its products or
services export and consumption. Through international trade and consumption, companies
from small countries are able to bring down the benefit of country size for companies from
large countries and they are able compete with them.

The size of a country also influences its economic performance and its preferences for
international economy (Alesina, et al., 2005). Small economies are especially open to external
trade (Alesina, 2003). However, the size of a state is the trade-off between the benefits of size
versus the costs of heterogeneity of preferences, culture and attitudes of the population
(Alesina, 2003). The scope of international trade development in small states is deeper
integration into the global economy and concentrate on their competitive advantage economic
activities (Venner, 2009). To minimize the harmful from competitors, small companies can
adopt differentiation strategies in other niche markets to leverage their quality and technology
excellent (Knight & Cavusgil, 2004). Cazurra and Genc (2008) argued that companies from developing market suffers from underdeveloped institutions. Nevertheless, they are competitive advantage when they are expanding their business to least developing countries as they are used with underdeveloped operating conditions in their home country. Capabilities in small scale labour-intensive manufacturing and marketing enable companies from small emerging market to serve niche market in other emerging market that are sharing the same national characteristics (Gaur & Kumar, 2010). In this research, the small emerging market to be studied is Malaysia. Malaysia is one of the emerging markets in South East Asia (Table 2.5).

Figure 2.3: Map of Malaysia

![Map of Malaysia](GoogleMap, 2015)

Kuala Lumpur is the capital city of Malaysia. As at July 2014, there are a total of 30 million populations recorded by Malaysia National Statistic Department (DOSM, 2014). It constitutes of Malay (50.1%), Chinese (22.6%), Indigenous (11.8%), India (6.7%) and others. Malay
language is the official language and majority of Malaysian are literate in English. Muslim is the official religion and the local currency is Ringgit Malaysia. In 2014, the gross domestic product (GDP) in Malaysia is US $ 746.8 billion and service sector (56% of GDP) is overtaking industry sector to contribute to the country’s development (CIA, 2015b).

The major agriculture products in Malaysia include palm oil, rubber, timber, cocoa, rice, subsistence crops and pepper. Major sector in industries include petroleum and natural gas, pharmaceuticals, medical technology, electronics and semi-conductors, rubber and palm oil processing and manufacturing and many others. (CIA, 2015a). In 2014, total export in Malaysia is accounted US $231.3 billion. Major exports includes semiconductors and electronic equipments, palm oil, petroleum and liquefied natural gas, wood and woods products, palm, rubber, textiles and others. Service export in Malaysia includes travel, business services, transport, information communication technology, construction, insurance and pension services and many others (refer figure XX). China (14.1%) is the major exporting countries followed by Singapore (13.9%), Japan (10.9%), United States (8.2%), Thailand (5.4%), Indonesia (4.5%) and Hong Kong (4.2%) (CIA, 2015b; DOSM, 2014; MITI, 2015).
Table 2.3: Malaysia Facts

<table>
<thead>
<tr>
<th>Malaysia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital:</td>
</tr>
<tr>
<td>Language:</td>
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<td>Area:</td>
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<tr>
<td>Literacy:</td>
</tr>
<tr>
<td>Gross Domestic Product:</td>
</tr>
<tr>
<td>Total Export:</td>
</tr>
</tbody>
</table>

(CIA, 2015b; Developing8, 2015; DOSM, 2015; IMF, 2015)
Figure 2.4: Malaysia Service Export 2014 (Percentage, %)

(MITI, 2015)

Table 2.4: Malaysia Service Export 2014 (value, RM)

<table>
<thead>
<tr>
<th>Services</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Travel</td>
<td>RM71.4 billion</td>
</tr>
<tr>
<td>Business services</td>
<td>RM23.0 billion</td>
</tr>
<tr>
<td>Transport</td>
<td>RM15.5 billion</td>
</tr>
<tr>
<td>ICT</td>
<td>RM9.0 billion</td>
</tr>
<tr>
<td>Construction</td>
<td>RM2.7 billion</td>
</tr>
<tr>
<td>Insurance and pension services</td>
<td>RM1.4 billion</td>
</tr>
<tr>
<td>Others</td>
<td>RM3.2 billion</td>
</tr>
</tbody>
</table>

recorded that Malaysia’s average growth is more than seven percent per year for 25 years or more. Malaysia is one of the Asian Tiger Economies together with South Korea, Taiwan and Singapore. These nations are small but they are truly competitive and highly involved in the
world economy (Chow, 2010). Compared with other big population emerging markets in Asia such as China and India, Malaysia is relatively small market.

To justify the size of Malaysia in relation with other emerging markets, a complete listing of emerging markets is needed. Different organisation have its’ own listing on emerging markets based on its’ specific criteria and characteristics for country to fulfill. These organisations include Dow Jones, International Monetary Fund - IMF, Standard and Poor – S&P, Financial Times Stock Exchange – FTSE and many others.

Table 2.5 is a compilation of list of emerging markets. The table is developed with condition that one country must appear more than three times from selected four index – IMF, FTSE, S&P, and Dow Jones. Countries’ population is derived from United States Center Intelligence Agency (CIA, 2015a).

China and India are the largest emerging market in the world with 1.35 billion and 1.23 billion population each. Czech Republic with 9.9 million populations is the smallest emerging market. The average population of emerging market is 682.8 million. Malaysia with its 30 million populations is categorised as a small emerging market.
Table 2.5 Summary List on Emerging Markets

<table>
<thead>
<tr>
<th>Country</th>
<th>Population</th>
<th>IMF</th>
<th>FTSE</th>
<th>S&amp;P</th>
<th>Dow Jones</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>1,355,692,756</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>India</td>
<td>1,236,344,631</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Indonesia</td>
<td>253,609,643</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Brazil</td>
<td>202,656,788</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Russia</td>
<td>142,470,272</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Mexico</td>
<td>120,286,655</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Philippines</td>
<td>107,668,231</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Egypt</td>
<td>86,895,099</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Turkey</td>
<td>81,619,392</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Thailand</td>
<td>67,741,401</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>South Africa</td>
<td>48,375,645</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Colombia</td>
<td>46,245,297</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Poland</td>
<td>38,346,279</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Morocco</td>
<td>32,987,206</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Peru</td>
<td>30,147,935</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Malaysia</td>
<td>30,073,353</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Taiwan</td>
<td>23,359,928</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Chile</td>
<td>17,363,894</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>10,627,448</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Hungary</td>
<td>9,919,128</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

(CIA, 2015a; DowJones, 2012; FTSE, 2015; IMF, 2012; S&P, 2014)
3.0 Research Methodology

3.1 Qualitative Research

There are two main stream of research paradigm: quantitative research and qualitative research. Quantitative uses positivism paradigm by following rigid rules of logic and measurement, truth, absolute principles or reality and prediction. Positivism argues that there is one objective reality. Thus, valid research is demonstrated only by the degree of proof that corresponded to the phenomena of the study and its result (Weaver and Olson 2006; Cole 2006; Halcomb and Andrew 2005). Qualitative methodology uses interpretive paradigm as philosophical foundation to study the holistic perspective of the person or environment with many truths and multiple realities. Cole (2006) stated that qualitative research is more concerned about uncovering knowledge about how people feel and think in the circumstances in which they find themselves, instead of making judgements about whether those thoughts feelings are valid.

Qualitative research involves in-depth interview and analysis with different people. The different perceptions, needs and experiences from these people provide new insight to the field of study. While the study data in quantitative research are more measurable from the questionnaire conducted, the data in qualitative research are more descriptive, explanatory and contextual. The study sample in qualitative research is representatives that are able to provide their experience or expertise from different point of view (Bryman & Bell, 2007; Denzin & Lincoln, 2011; Weaver & Olson, 2006).
Table 3.1: Summary of the Research Paradigms

<table>
<thead>
<tr>
<th>Research Methods</th>
<th>Quantitative</th>
<th>Qualitative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose</td>
<td>Predict and explain the phenomena</td>
<td>In depth interview and analysis and new insight</td>
</tr>
<tr>
<td>Beliefs</td>
<td>• Objective</td>
<td>• Different people with different perceptions, needs,</td>
</tr>
<tr>
<td></td>
<td>• Single truth and reality</td>
<td>experiences</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Many truths and realities</td>
</tr>
<tr>
<td>Study Data</td>
<td>Measurable outcomes from questionnaire data</td>
<td>Descriptive, explanatory and contextual words of</td>
</tr>
<tr>
<td></td>
<td></td>
<td>interview data</td>
</tr>
<tr>
<td>Study Sample</td>
<td>Statistical sampling from population</td>
<td>Representatives who are able to provide expertise from</td>
</tr>
<tr>
<td></td>
<td></td>
<td>different point of view</td>
</tr>
</tbody>
</table>

(Bryman & Bell, 2007; Denzin & Lincoln, 2011; Weaver & Olson, 2006)

From Latin, *qualitas* refers to the focus on quality or features of entities while in contrast, the term *quantitas* refers to the focus on differences in amount. According to Denzin and Lincoln (2011), qualitative involves interpretive and naturalistic approach to the world. Qualitative researchers study things in their natural settings, attempting to make sense or interpret phenomena to bring meaning to them. It involves human consciousness and subjectivity, and qualitative research values human and their experiences in the research process (Taylor, 2012).
Qualitative research data provide rich insight on human behaviour. It understand human behaviour with reference to the meanings and purpose attached by the human actors to their activities (Guba & Lincoln, 1994). Qualitative data also provides contextual information. Gubrium and Holstein (1997) suggested several traditions in qualitative research. Researcher often seek to understand the social reality in its natural setting. Qualitative research concern with human emotion and interactions that are sensitive to the different ways that social reality can be constructed.

**Table 3.2: Traditions in Qualitative Research**

<table>
<thead>
<tr>
<th>Traditions</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Naturalism</td>
<td>Seek to understand social reality in its own terms and provides rich decriptions of people and interaction in natural settings.</td>
</tr>
<tr>
<td>Ethnomethodology</td>
<td>Naturalistic orientation that seeks to understand how social order is created through talk and interaction.</td>
</tr>
<tr>
<td>Emotionalism</td>
<td>Concern with subjectivity and inner experience and reality of humans.</td>
</tr>
<tr>
<td>Postmodernism</td>
<td>Sensitble to the different ways social reality can be constructed</td>
</tr>
</tbody>
</table>

(Gubrium & Holstein, 1997)

Qualitative research uses methods such as storytelling, interviews and participant observation to explore the relative nature of knowledge. It is specific, content dependant and centered to specific people, place, time and condition (Taylor, 2012). Qualitative research usually uses inductive thinking starts from specific instances then moves to general patterns of combined
instances and lastly the larger statements about nature of the subject under investigated to generate knowledge and theory (Taylor, 2012).

3.2 Research Paradigm

According to Weaver and Olson (2006, p.460) “Paradigms are patterns of beliefs and practices that regulate inquiry within a discipline by providing lenses, frames and processes through which investigation is accomplished.” It can be viewed as a set of basic beliefs that deals with ultimate principles, and the range of possible relationships to that world and its parts (Guba & Lincoln, 1994). Research paradigm affects the beliefs and viewing of researchers in their interacting with their surroundings. It is standards and rules that guide a researcher’s action and belief in research (Guba & Lincoln, 1994).

Ontological, epistemology, axiology and methodological are four philosophical assumptions in research. Ontological in research includes the understanding on the form and nature of reality and the implication. Epistemological is to understand the nature of the relationship between the existing knowledge and new knowledge and its implication. It justified what counts and claims as knowledge. Axiology is the role of values in research. Methodological assumption explains how researcher can find out the new knowledge. It explains the process of the research in collecting and analyzing the data (Creswell, 2012). Ontological, epistemological, axiology and methodological in research help to define the inquiry paradigm in research. Inquiry research helps researcher to understand what it is they are about, what falls inside or outside the limits of legitimate inquiry in the research.
### Table 3.3: Philosophical Assumption with Implication for Practice

<table>
<thead>
<tr>
<th>Assumption</th>
<th>Questions</th>
<th>Characteristics</th>
<th>Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ontological</td>
<td>What is the nature of reality?</td>
<td>Reality is multiple as seen through many views.</td>
<td>Researcher reports different perspectives as themes develop in the findings.</td>
</tr>
<tr>
<td>Epistemological</td>
<td>What counts as knowledge? How knowledge claims justified? What is the relationship between the researcher and that being researched?</td>
<td>Subject evidence from participants. Research attempts to lessen distance between himself or herself and that being researched.</td>
<td>Researcher relies on quotes as evidence from the participants; collaborates, spend time in field with participants, and becomes an “insider”.</td>
</tr>
<tr>
<td>Axiological</td>
<td>What is the role of values?</td>
<td>Research acknowledges that research is value-laden and that biases are present.</td>
<td>Researcher openly discusses values that shape the narrative and includes his or her own interpretations of participants.</td>
</tr>
<tr>
<td>Methodological</td>
<td>What is the process of research? What is the language of research?</td>
<td>Researcher uses inductive logic, studies the topic within its context, and uses an emerging design</td>
<td>Researcher works with particulars (details) before generalisations, describes in detail the context of the study, and continually revises questions from experiences in the field.</td>
</tr>
</tbody>
</table>

(Creswell, 2012) pg 21
3.3 Interpretive Framework

Framework is a set of broad concepts that guide a research (Willis, Jost, & Nilakanta, 2007). There are a number of frameworks for qualitative researchers to choose and the categorisation is expanding. It consist of positivism, postpositivism, interpretivism, constructivism, hermeneutics, feminism, racialized discourse, critical theory and Marxist models, cultural studies models, queer theory and postcolonialism. Interpretive frameworks are adopting social science theory or social justice theories that provide lens to study. Social science theories are the use of theories such as leadership, attribution and other in ethnography. Social justice theories are advocacy theories that bring change or social justice into our society.

3.5 Methods Employed in the Research

The research objective is to understand the internationalisation process of SMEs in a small emerging market. These include the entry mode strategies adopted by SMEs and the reason why; internationalisation decision making process, the challenges faced, and the strategic actions that have been taken by SMEs in small emerging market. Case study research is proposed to be conducted for this research as it provides direct observation, in depth analysis on the dynamic decision making process and new insights on SMEs internationalisation in small emerging market. The fresh perspective, knowledge development and theory building in case study well suited to the need in new IB research as existing theory is inadequate to explain the recent internationalisation activities (Eisenhardt, 1989; Ghauri, 2004). The knowledge and theory which are derived from data in qualitative research offer deep insight that enhance understanding resemble the reality in subject of studied (Strauss & Corbin, 1998).
3.6 Interviewees

Those targeted companies are SMEs involved in business consultancy and training services. Due to the limited resources and the nature of the organisation, the number of employees in SMEs is minimal. Johanson (2004) advised that always avoid staffs who are not in the front line to interview. The internationalisation decision making authority usually falls on to the founders or top management of the company. These are the people that to be interviewed in this research. Some employees that have been involving in the execution of internationalisation strategies will also be interviewed.

3.7 Research Visits

There is no upper or lower limit for the number of cases to be included in the research study but research objective influences the number of choices to be studied (Ghauri, 2004). The research objective is to understand the internationalisation process of SMEs, thus a number of SMEs have to be studied. Due to the research time constraint, four companies are targeted to be interviewed and each of the companies will be visited several times in order to provide deeper and clearer insight for the research objective. Those interviews will be face-to-face interviews to be conducted in the targeted company.

3.8 Data Collection

Data will be collected mainly through interviews and formal documentaries. However, evidence will also be gathered from informal conversations and observations during the fieldwork.

3.9 The Use of Case Study

Yin (2008) suggested three conditions to evaluate in order for choosing the correct research
method: form of research question, control over behavioral events, and whether the study focuses on a contemporary event. A case study investigates contemporary phenomena in depth and with its real life context whereby investigators have little or no control towards the phenomena. The essence of case studies is to illuminate a decision or set of decisions that answer why were they taken, how they were implemented and with what result (Schramm, 1971). A full variety of evidence: documents, artifacts, interviews and direct observation is generated through case study. Many are concerned about the scientific generalization of case study research as scientific fact does not generalize from single experiment. However, the goal of case study is to expand the generalised theory instead of to generate statistical frequency or theory verification (Rebecca Marschan-Piekkari & Catherine Welch, 2004). The purpose of the study is to discover the dynamic internationalisation decision making process, challenges and new capabilities from SMEs in small emerging market. It is expected to advance from the current research phenomena on SMEs internationalisation (Ghauri & Grønhaug, 2005). Kanter (1993) explains that case study enable concept generation and give meaning to abstract proposition through intensive examination of case.

Multiple case studies are proposed to be conducted in this research. The use of multiple case studies allow multiple experiments or interviews to be conducted to different companies to follow a replication design (Yin, 2008). Multiple case studies compare and contrast the findings derive from each case in the research. It analyses the common or unique among the cases then promotes theoretical reflection on the finding. Overall, multiple case studies provide more compelling evidence compared with single case study thus the overall research is more robust (Herriott & Firestone, 1983).

To improve on the quality and overall design of the research, construct validity, external
validity and reliability test will be conducted (Yin, 2008).

3.9.1 Construct Validity

The objective of construct validity is to identify correct operational measures for the concept being study. Triangulation of multiple sources of evidence and understanding on the chains of evidence will be executed in this research to ensure the corrective of the measurement. Key interviewees will be asked whether the research experience resonates with them. They will review the draft of the case study report after the research.

3.9.2 External Validity

External validity defines the domain to which a study’s findings can be generalized. Replication logic will be applied through the conduct of multiple case studies to increase the generalization of the study finding.

3.9.3 Reliability

The purpose of reliability test is to demonstrate the quality of the research whereby if the research procedures if repeated, it will generate the same result. In this research, Nvivo software will be use for database development and analysis. The research protocol will follow case study method developed by Robert Yin. The architecture of multiple case study research in international business by Pieter Pauwel and Paul Matthyssens will be use as a guidance to this research (Rebecca Marschan-Piekari & Catherine Welch, 2004; Yin, 2008).
4.0 Contribution

The Uppsala model was introduced by Johanson and Vahlne in 1977 to study the internationalisation among multinational companies in Swedish. The advancement of ICT, globalisation and rapid internationalisation among SMEs from emerging market call for a study in these sector and to revise the existing Uppsala model. While major of literature was conducted over large manufacturing firm in developed market or emerging market, this paper seeks to analyse the internationalisation of SMEs in service sector from emerging market. This will increases the SMEs efficiency in resource allocation and improves the decision making process during internationalisation. It enables SMEs from emerging market to compete and excel in global business.
5.0 References


GoogleMap. (2015). Malaysia Retrieved 11 May, 2015, from https://www.google.com.my/maps/place/Malaysia/data=!4m2!3m1!1s0x3034d3975f6730af0x745969328211cd8?dg=oo


