

# SMEs' impediments and developments in the internationalization process

## Malaysian experiences

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### Abstract

**Purpose** – The purpose of this paper is, first, to examine the factors that impede SMEs in their internationalization process; second, to analyse the effectiveness of the government support and development programs of the SMEs; and finally, to examine the networking efforts by Malaysian SMEs at the industrial level.

**Design/methodology/approach** – This study is descriptive in nature. Secondary data are the main source of data collection. Data were obtained from reliable and authoritative sources such as SME Corp, government agency publications, newspapers, international business journals and other related periodicals. A meta-analysis technique was used in this study where results from previous and current studies on similar topics were critically reviewed.

**Findings** – This study found that Malaysian SMEs faced external and internal impediments in their efforts of expanding their operations internationally. Externally there is a lack of skilled workers available in the domestic labour market; increased competition in the domestic market due to the regional economic agreement among neighbouring countries; lack of physical infrastructure allocated to the SMEs; and government assistance offered does not reach SMEs due to high level of bureaucracy and poor communication. Despite the impediments encountered by SMEs, they still obtained benefits from various policies, programmes and incentives provided by the government.

**Research limitations/implications** – Meta-analysis conducted on the challenges of Malaysian SMEs in its internationalization process might be inadequate as it is limited to the availability of the current and previous studies. Additionally, quantitative data obtained from the secondary source was not raw data thus statistical testing could not be further conducted and analysed. Data obtained from the local authoritative sources detected different problems and challenges from those found in previous and current studies.

**Practical implications** – This study indicates several implications for managers and policy makers. Malaysian SMEs need to evaluate its capability before embarking into new geographic locations and engage internationally. With diverse programmes offered by the government, SMEs have a wide range of choice when involving the whole value chain activities, either through marketing their products in the market or manufacturing and supplying the products to large firms or MNCs. Involving international markets is not only about expanding the market but also for seeking lower costs and resources as well as operating with management efficiency.

**Originality/value** – This study contributes to the body of knowledge of international business and entrepreneurship literature in three ways. First, research on SMEs from emerging countries involved in international market tend to be limited in literature, most of them are concentrated in the developed countries; thus this study would extend the understanding about the internationalization process among SMEs. Second, this study focused on the impediments of SMEs in their implementation strategies which represent the practicality of the phenomenon thus bridging the gap between theories and realities. Third, this study brings to light the significance of networking relationships in international business and entrepreneurship primarily among SMEs due to their size limitations. Finally, the meta-analysis technique which is seldom used in the international business and



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entrepreneurial literature is adopted in this study. This technique provides another approach for the researchers to examine and address the issues in the field.

**Keywords** SMEs, Management, Strategy, Entrepreneurship, International business

**Paper type** Research paper

## Introduction

The contribution of SMEs to the economy of a country has been recognized in emerging countries and its effect can be seen in income growth, entrepreneurial training, the creation of technological capability, greater flexibility in changing market circumstances, job creation, lower wage inequality and the dispersion of industry away from urban areas and regional development (Katrak and Strange, 2002; Weeks, 2002). This is a remarkable achievement considering the natural drawbacks of SMEs caused by their size and lack of industrial experience. SMEs have also been the dominant drivers of export growth and manufacturing advances in the emerging economies. Both the significant growth in exporting, and the involvement in the international markets characterize the process of internationalization. The global market provides new business opportunities for innovation and new export markets, through both upstream and downstream activities, with large firms and between SMEs themselves. The trend in internationalization has witnessed significant and active participation from SMEs in international markets and is anticipated to become stronger due to the integration of the world economy, continuous declines in trade barriers and advances in technology (Oviatt and McDougall, 1994, 1999; Lu and Beamish, 2001). SMEs have been a primary focus of entrepreneurship literature, and the entry into new international markets has fundamentally been considered as an entrepreneurial achievement (Burgelman, 1993; Lumpkin and Dess, 1996; Barringer and Greening, 1998).

The internationalization of SMEs has expanded due to technological developments, the deregulation of markets, the liberalization of world trade and the emergence of regional economic cooperation agreements. The advances in telecommunication and technologies have facilitated SMEs to become involved in the global market through the reduction of costs and risks. SMEs that engage in the global market are at an advantage on both international and domestic platforms. Internationally, SMEs that operate in overseas markets can gain new experience and incorporate this into their local operations, thus leading them to strengthen their competitiveness and global presence (Lages and Montgomery, 2004). Domestically, internationalization creates social prosperity, helps national industries to improve productivity, engenders foreign exchange, supports socio-economic development, diminishes the national deficit and enhances employment opportunities. Furthermore, international expansion has become a significant route by which SMEs can develop as entering new and larger markets enables them to expand their customer base, produce larger volumes and increase their profits and growth. All these factors have motivated SMEs to internationalize and move to new geographic locations; however, the process of internationalization itself is very challenging due to its involvement in many distinctive conditions in addition to having to face the common obstacles associated with local growth (Barringer and Greening, 1998; Lu and Beamish, 2001).

Malaysian SMEs have contributed to the local economy by providing new job opportunities, introducing innovation, stimulating competition and supplying large multinational firms within the country (Hashim and Wafa, 2002). Following the trend in the South-East Asian economies, the SME sector in Malaysia continues to play a vital role in the country's industrialization programme, and represents the backbone

of industrial development (Harvie and Lee, 2002; Saleh and Ndubisi, 2006). Of the local firms established in the manufacturing sector in 2003, 90 per cent were SMEs (SMIDEC, 2004). Successively, this number has continued to rise, and in 2007, 97 per cent of Malaysian firms in the manufacturing sector were SMEs, contributing 31 per cent of the total manufacturing output and 27 per cent of the total added value, employing 32 per cent of the total workforce (SMIDEC, 2009). In 2012, SMEs contributed nearly 33 per cent of the gross domestic product (GDP) and nearly 60 per cent of the total employment (Bernama News, 2013). Despite the achievement towards the GDP, the contribution of SMEs in the export and international market remains relatively small at 18 per cent in 2012 – this is far below neighbouring countries, specifically Thailand, Taiwan and Japan. It is important to comprehend this phenomenon as SMEs' international involvement has been increasingly significant to the economy. Therefore, this study endeavours to shed light on the factors that impede SMEs from engaging internationally.

The Malaysian government has recognised the considerable contribution of the SMEs in the economy; accordingly, many agencies have been established to support the SMEs' growth with various programmes being developed to stimulate their participation domestically and internationally. In total, 19 ministries are involved in the establishment of SME policies and there are 21 established agencies that work with and support the SMEs to operate and develop in the economy. In total, 123 programmes have been developed by those agencies to facilitate the SMEs to spearhead the country's economic development. This condition indicates that the government are profoundly engaged in stimulating the growth of SMEs. Nonetheless, as discussed above, the real contribution of the SMEs at international level is far below their domestic involvement, and it is uncertain why such a situation exists. It is worth investigating the underlying reasons for such circumstances as the government have spent a great amount of funds through numerous programmes in supporting them. However, are the programmes developed for SMEs really helping them to grow? This issue needs to be explored to examine the programmes' effectiveness for SMEs.

The expansion of SMEs into new geographic markets has been regarded as an act of entrepreneurship (Burgelman, 1983; Lumpkin and Dess, 1996; Barringer and Greening, 1998). Numerous studies of the literature have examined the antecedents and the process of internationalization of SMEs (Special Issues in Entrepreneurship Theory and Practice, 1996; Academy of Management Journal, 2000; Preece *et al.*, 1999; Wolff and Pett, 2000). However, most of these studies were conducted among SMEs from developed countries, which might portray a different level of entrepreneurial experience, maturity and behaviour than that of emerging SMEs in countries such as Malaysia. Although several studies were conducted on Malaysian SMEs by local and internal researchers from the perspective of entrepreneurship (Baird *et al.*, 1994; Vicziany, 2001; Ting 2004; Saleh and Ndubisi, 2006; Saleh *et al.*, 2008), the understanding of the internationalization phenomenon is still vague and inconclusive. These researchers explored the general behaviour of the Malaysian SMEs in their attempts to expand their businesses abroad. Zain and Siew (2006) examined the network relationships among SMEs in their internationalization process. These authors focused on the firm level and selected relatively small number of SMEs as case studies of their network establishment. This condition did not clarify the phenomenon of networking among SMEs, despite its significance as highlighted in the entrepreneurship literature. This indicates that studies on SMEs' internationalization process are still at an early stage, therefore this subject requires further investigation.

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In addressing the above gaps, this paper aims to highlight the following issues: first, to examine the factors that impede SMEs in their internationalization process; second, to analyse the effectiveness of the government support and its' development programmes for SMEs; and finally, to examine the networking efforts by Malaysian SMEs at the industrial level. This paper commences with an overview of the development of SMEs in Malaysia; it then presents the significant theories related to the SME internationalization process and international entrepreneurship. After that, the research methodology of the study is clarified and the findings are summarized and illustrated. Following that, further discussion on the results is presented. Finally, concluding remarks are given with an explanation on the research contribution, implication, recommendation and limitations.

### **SMEs and government policies**

The term SME covers a diverse group of businesses in emerging economies, varying from a small shop making handicrafts to a sophisticated engineering firm selling in overseas markets (Fischer and Reuber, 2003). The Malaysian government strongly encourages the development of SMEs in order to create a large pool of authentic medium-scale entrepreneurs who are capable of competing in the global market. This perspective has been asserted by various scholars in the SMEs discipline as playing a key role in generating prospective entrepreneurships, which provide opportunities for value-added employment creation, income distribution, training and skill development, and which complete the supply chain links with big industries and multinationals (Chee, 1990). The government provided various support in the form of financial assistance, tax incentives, business advisory assistance and trainings.

Recognizing the significance of SMEs to the economy, the Small Medium Industrial Development Centre (SMIDEC) was established in 1996 to spur on the development of SMEs by providing infrastructure facilities, financial assistance, advisory services, market access and other support programmes. To facilitate the SMIDEC, the Small and Medium Enterprise Corporation Malaysia (SME Corp. Malaysia) was established in 2007 as a central point of reference for information and advisory services for all SMEs in Malaysia. In Malaysia, SMIDEC defines small and medium enterprises according to their annual sales turnover or the number of their full-time employees. SMEs are divided into two sectors: manufacturing, which includes manufacturing-related services, and primary agriculture. Since 2005, SMEs were defined as manufacturing firms that had a sales turnover of less than RM25 million or < 150 full-time employees; Agricultural firms were defined as having a sales turnover of less than RM5 million or less than 50 full-time employees (SME Corp, 2013a). However, due to the rapid developments in the economy, such as price inflation, structural changes and change in business trends, the definition was revised and officially adopted in 2013. SMEs are now defined as manufacturing firms that have a sales turnover not exceeding RM50 million or with a workforce not exceeding 200 full-time employees; agricultural firms are defined as having a sales turnover not exceeding RM20 million or a workforce that does not exceed 75 full-time employees (SME Corp, 2013b).

SMEs often suffer from their limited size and resources, and thus end up encountering numerous challenges in their efforts to enter the global market (Coviello and McAuley, 1999). SMEs also face constraints on their knowledge and experience at international level, exposing them to various threats, such as the presence of larger firms, strong competition, high barriers to entry and power asymmetries in value chains. Johanson and Vahlne (1977, 1990) argued that SMEs from emerging and

developing countries face difficulties in internationalizing and establishing a foothold in the international market due to a lack of market and product knowledge and cultural differences. The borderless world exposes SMEs to many challenges that affect their businesses both domestically and internationally. Etemad (1999) stated that “entrepreneurs and emerging businesses must learn about global business to thrive alongside larger firms already in the international marketplace”. Gnyawali and Fogel (1994) identified the business environment for SMEs as including government policies and procedures, socio-economic conditions, entrepreneurial and business skills, financial support and other support. The area with the greatest potential lies in studies that seek to explore in more detail the ways in which environmental factors influence entrepreneurship internationally. In many developing countries, central and local government play an active role in the economy, and firms tend to be attuned to government priorities and preferences. Government support provides firms from emerging economies with privileged access to certain inputs, preferential financing, subsidies and other support. In Malaysia, many venture capital funds have been established by the government to further enhance the SMEs access to financing since 1999. More than RM120 million a year was allocated to the Multimedia Super Corridor (MSC) Venture One Fund to provide venture capital financing to innovative and emerging information, communication and technology (ICT) and multimedia companies at the various stages of start-up, growth and the pre-initial public offering (IPO) stage. There were also another two funds of RM150 million each established at commercial banks, and a RM200 million fund to finance high-technology projects channelled through the Industrial and Technology Bank of Malaysia. Apart from these, there were also other funds offered to SMEs, including the Fund for Small and Medium Industries (FSMI), the Rehabilitation Fund for Small and Medium Industries, and the Bumiputera Entrepreneurs Project Fund. The FSMI was specifically established to provide financing for SMEs in the manufacturing and service sector to assist them in penetrating the export market or providing them with linkages to export-oriented companies.

SMEs gain similar attention from the government when they act as boosters to the country's economic growth. Support from the local government is provided for SMEs not only in emerging countries but also in developed countries, as internationalization is recognized as a significant yet formidable and exorbitant process. The whole policy and business environment in emerging and developing countries is possibly the most important influence on private sector investment and exporting behaviour, including the building of export capabilities in SMEs (Levy, 1993; Badrinath, 1997). The policy and business environment can be classified into two main groups: first, the application of government policies, regulations and procedures relating to macroeconomic conditions, international trade, domestic competition, taxes, bureaucratic procedures and labour; and second, the institutions and other aspects of the business environment relating to finance, infrastructure, market conditions, law and crime (Wignaraja, 2003). Government policies in the development of SMEs differ between developed and emerging/developing countries. This is often due to differences in business contexts, culture and the level of industrialization. SMEs in emerging/developing countries in South-East Asia obtain support from their local governments in the form of micro finance, interventions to increase private sector training, technology development and market information (Batra and Mahmood, 2003). Indonesia, Thailand and Malaysia, in a similar way to China, gained from the policies they implemented, from networking relationships, cluster linkage to markets and from a new support infrastructure

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(Harvie, 2001; Brimble *et al.*, 2002; Harvie and Lee, 2002; Tambunan, 2005). Dallago and McIntyre (2003) affirmed that SMEs are not able to grow by themselves without the appropriate development of institutions and support structures. The supportive actions may take the form of incentives, tax breaks, subsidies, export training or trade barriers. Smallbone (2004) also asserted that businesses need to have conditions such as: a legal infrastructure that is appropriate for the market conditions; a legal framework that facilitates the development of entrepreneurship; and commodity, capital and labour markets. Institutions, including regulatory and tax authorities, licensing and registration offices, and private sector institutions, such as banks, accountancy firms, other professional bodies and Chambers of Commerce, must provide business support to SMEs (SMIDEC, 2004). Changes in the international business environment make SMEs fragile, so they need to be supported, guided and nurtured by their governments for a certain amount of time until they develop their own capabilities and strengthen their competitiveness, allowing them to face and compete with foreign firms primarily from developed countries.

### **Internationalization and networking**

The Uppsala model remains the most prominent model for the internationalization of firms, whereby initial internationalization activities are targeted at psychologically close markets and use less committed modes of entry, such as exporting. Authors have argued that a firm learns and increases its foreign market knowledge over time, mostly through experience, then increases its foreign market commitments and later on expands into more psychologically distant markets (Johanson and Vahlne, 1990). The current regional and global integration of trade and production, as well as accelerating technological change, has facilitated more drastic internationalization among firms (United Nations Conference on Trade and Development, 2001). The motivating factors of SMEs that accelerate internationalization were discussed by Knight and Cavusgil (1996), Madsen and Servais (1997) and Oviatt and McDougall (1999). Oviatt and McDougall (1994) described them as international new ventures (INVs) "that, from inception, seek to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries" (p. 49). Oviatt and McDougall (1999) argued that speedily changing computer, communication and transportation technology are significant in accelerating SMEs' internationalization and the key barriers to the process include the political economy, industry conditions, firm effects and management team. Johanson and Vahlne (2003) emphasized that networks are very important in the internationalization process, primarily between customers and suppliers, as firms learn and benefit from such relationships. Networking helped and directed them to enter foreign markets either gradually or rapidly. A network is defined as the relationship between a firm's management team and employees with customers, suppliers, competitors, government, distributors, bankers, families, friends, or any other party that enables it to internationalize its business activities (Sharma and Johanson, 1987; Axelsson and Johanson, 1992).

Networking is a powerful tool for the entrepreneur (Dubini and Aldrich, 1991), and network analysis has been a powerful framework for international entrepreneurship researchers. Firms use their networks to gain access to resources, to improve their strategic positions, to control transaction costs, to learn new skills, to gain legitimacy and to cope positively with rapid technological changes (Bonaccorsi, 1992; Gulati, 1995; Das and Teng, 1998; Hitt and Ireland, 2000; Alvarez and Barney, 2001). Networks emphasize reciprocity norms, personal relationships, reputation and

trust (Larson, 1992). The entrepreneur's network represents social capital that is intangible and idiosyncratic, and this capital appreciates through repeated interactions that help build trust (Coleman, 1990). When an entrepreneur draws upon a network contact in an exchange, thereby utilizing his/her social capital, an obligation is incurred for which there is expected reciprocity. Johanson and Vahlne's (2003) network model draws distinctively upon international entrepreneurship research to integrate network theory into existing theories of firm internationalization.

The internationalization process of SMEs from a network perspective has been examined earlier by Andersen (1996); Axelsson and Johanson (1992); Coviello and Munro (1997); Ellis (2000); Johanson and Mattson (1988); Johanson and Vahlne (1992). Chetty and Patterson (2002) asserted that the notion of business networks (Anderson *et al.*, 1994) derived from the social exchange perspective on social networks (Emerson, 1972; Cook and Emerson, 1978). The internationalization process of SMEs from this perspective is more valuable as it is possible to solve the problems related to their limitations in resources, experiences, and credibility (Lu and Beamish, 2001). The latest form of network to emerge among firms involves e-commerce corporations on the Internet. These corporations resemble network organizations in the form of an interdependent coalition of task or skill-specialized entities (Achrol and Kotler, 1999; Singh and Kundu, 2002), which can result in them gaining certain advantages (Singh and Kundu, 2002, p. 686).

Studies in international entrepreneurship research using network theory have not only focused on the personal and extended networks of the entrepreneurs, but have also extended to organizational networks. The organizational network refers to the extent of key person involvement in creating a global network of local networks, which includes the role of governments in fostering networks (Hara and Kanai, 1994; Birkinshaw, 1997). McNaughton and Bell (1999) argued that several countries have made government funding accessible for relationship brokers to encourage networks that promote growth and internationalization. Cooke and Morgan (1993, 1994) asserted that network analysis represents a dominant framework in the international entrepreneurship field, as networks help entrepreneurs to identify international opportunities and establish credibility, provide access to critical resources, including knowledge, and frequently lead to strategic alliances and other cooperative strategies.

### **Methodology**

As this study aims to clarify the impediments faced by SMEs in the international market and the effectiveness of government assistance available to SMEs, it will be descriptive in nature. This study attempts to reveal the factors that impede the SMEs competing in the international market; why the SMEs encounter such problems and obstacles; the core issues related to the impediments; who could possibly be involved in the impediments; how the impediments can be alleviated to improve the SMEs' internationalization process and who can assist them in competing in the foreign market. Earlier studies have explored SMEs and international markets and/or internationalization processes; however, the explanation on it is still vague and immature. Secondary data is the main source of data collection. Data were obtained from reliable and authoritative sources such as SME Corp, government agency publications, newspapers, international business journals and other related periodicals. Government agency publications include articles published by SMIDEC, the major SME government agency, SME Corp, a subsidiary of SMIDEC, and MATRADE, the government agency for exporting and marketing into the international market.

As the study is descriptive, data analysis involved descriptive statistics rather than inferential statistics.

Apart from obtaining the descriptive data from authoritative sources, this study also analyses the obstacles facing by SMEs qualitatively based on the previous studies. A meta-analysis technique was used in this study where results from previous and current studies on similar topics were critically reviewed. Meta-analysis is a statistical analysis of current studies on a specific topic (Glass, 1976). It is a technique of reviewing and analysing literature using quasi-standardized procedures for generating scientific conclusions (Hunter and Schmidt, 2004). The meta-analysis technique has been adopted in the field of management since the 1980s and grew significantly in the 1990s (ISI Web of Science, 2011). After the year 2000, this technique was adopted and widely used, with 744 articles using this technique being published in management journals (ISI Web of Science, 2011). In international business and the entrepreneurship field, meta-analysis has not been commonly adopted in published articles, in both methods quantitatively and qualitatively (Buckley *et al.*, 2013). As these two fields of studies are multidisciplinary in scope and interdisciplinary in terms of their content and method, rigorous and systematic ways to clearly understand the phenomenon is required. Meta-analysis provides meticulous and organized procedures for the researcher to generate conclusions regarding the phenomenon (Thomas *et al.*, 2011).

Following a meta-analysis technique as stated above, results from various similar studies on Malaysian SMEs were also analysed. The common factors were classified together, primarily in the category of impediments faced by Malaysian SMEs in entering the international market. In conducting the meta-analysis, systematic review procedures were closely complied with. The findings of the studies were compared and contrasted to identify specific patterns and relationships among them. From the analysis, the pattern was detected, thus enabling the study to further scrutinize the impediments as well as comparing it with other available data. Table I summarizes some of the studies involved in identifying the SMEs impediments.

SME Corp, a subsidiary of SMIDEC the main government agency for SMEs, conducted a survey on all SME firms in Malaysia to identify their major problems. The data of the survey is published in the SME Annual Report 2010/2011. Some of the statistical findings were relevant to this study, thus data was extracted from this source for further analysis. The statistical findings provided by this authoritative body

Impediments facing SMEs	Studies
Market knowledge	Baird <i>et al.</i> (1994), Vicziany (2001), Ting (2004)
Financial constraint	Baird <i>et al.</i> (1994), World Bank (2005), Ting (2004), Saleh and Ndubisi (2006), Saleh <i>et al.</i> (2008)
Lack of infrastructure	Vicziany (2001), World Bank (2005), Saleh <i>et al.</i> (2008)
Lack of technology and innovation	Ting (2004), Saleh and Ndubisi (2006)
Human capital	Baird <i>et al.</i> (1994), Vicziany (2001), World Bank (2005), Ting (2004), Saleh and Ndubisi (2006), Saleh <i>et al.</i> (2008)
Business competition	World Bank (2005), Saleh and Ndubisi (2006), Saleh <i>et al.</i> (2008)
Government policies	Vicziany (2001), World Bank (2005), Saleh <i>et al.</i> (2008)
Increasing operational costs	SME Corp (2010)

**Table I.**  
SMEs impediments  
studies

were used to support and verify the qualitative data that had been analysed using the meta-analysis technique earlier. The method of matching the qualitative and quantitative data enabled the study to confirm the reliability, consistency and validity of the data. As a result, it enhances the validity of the findings of the study.

This study is not without limitations. Meta-analysis conducted on the challenges of Malaysian SMEs in their internationalization process might be inadequate as it is limited to the availability of the current and previous studies. Additionally, quantitative data obtained from the secondary source were not raw data, thus statistical testing could not be further conducted and analysed. Data obtained from the local authoritative sources detected different problems and challenges from those found in previous and current studies.

**Findings: impediments to internationalization**

This study found that Malaysian SMEs are struggling with various constraints in their process of internationalization, which impede them from achieving economies of scale and therefore from competing in the international market. Entering new markets represents one of the most difficult options for SMEs as they face constraints both externally and internally. The barriers to SMEs’ internationalization can be classified into two major categories: external and internal impediments as summarized below in Table II.

External impediments include a lack of skilled workers; the competitive environment; poor infrastructure; and poor implementation of government aids. The shortage of skilled and talented workers in the labour market has resulted in SMEs’ inability to upgrade the quality of their production for local and foreign markets, which also affects their efficiency and productivity. Some SMEs have hired foreign workers, who are less costly, but many problems arise in managing them as their skills are not up to standard. SMEs were also pressured by the effect of globalization in the region and other parts of the world. Under the regional economic pact, the ASEAN Free Trade Agreement (AFTA) and international trade institution, World Trade Organization (WTO), SMES are obliged to adapt to the international rules and regulations which negatively affect them. For instance, SMEs that are used to enjoying high protection and subsidies from the government cannot remain in such a position due to the pressure from AFTA and the WTO. Under the Common Effective Preferential Treatment (CEPT) agreement, all quantitative restrictions have to be abolished, all non-tariff barriers (NTB) have to be eliminated, and domestic price controls have to be suspended. Withdrawal of subsidies will increase the production costs primarily for those involved in the pricing of fuel, thus diminishing their competitiveness. Stiffer competition has been gradually encountered as a result of the full implementation of import restrictions and non-tariff barriers. In addition to the rules and regulations of AFTA and the WTO, SMEs also have to face greater competition in international markets as firms from other countries are more competitive. The greatest competition comes from the Association of South East Asian Nations (ASEAN) member countries, such as Singapore, Thailand and

**Table II.**  
Impediments to  
internationalization

External impediments	Internal impediments
Limited skilled workers in the labour market	Lack of market and product knowledge
Competitive environment due to AFTA	Limited financial ability
Poor infrastructure for SME zone	Less innovative and flexible
Poor implementation of government assistance	Limited ICT involvement
Reduction in product demand	Increasing operational costs
Malaysian Ringgit (MYR) fluctuation	Failure to fulfil customer demand

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Vietnam. Competitive pressure also arises from larger regional economies, such as China, India and Indonesia, which have advantages in terms of market size and cost.

Despite the setting up of various programmes and financial support systems for entrepreneurs, they have not been as effective as anticipated. A major flaw lies in the bureaucracy involved, which causes delays in getting approval for applications. Some of the reasons for such high levels of bureaucracy are: first, most of the SME programmes were offered by government agencies which are governed by lengthy red tape; second the numbers of agencies involved are excessively high. With 19 government ministries, 21 government agencies and nearly 200 programmes organized, this indicates the complexity of the bureaucracies involved. This number is excluding the banks and financial institutions that are also involved in providing financial support. The participation of numerous government agencies certainly generates delays and redundancies in their functions and responsibilities which in turn lead to inefficiencies in and ineffectiveness of the programmes offered. These circumstances restrict the SMEs' level of participation in the programmes developed and disappoint the genuine entrepreneurs. Over and above this, the red tape also creates confusion for the SMEs as there is also a lack of coordination among the government agencies, a lack of transparency, difficulties in accessing information, and the information given is outdated. In addition to the bureaucracy issue, there are also inadequate physical infrastructures available to SMEs, such as a scarcity of reserved SME land sites, a lack of industrial areas, high utility costs and other infrastructure issues which do not support the SMEs' business operations. Poor relationships and networking between SMEs and government agencies also intensify the complexity of bureaucracy and the inefficiency of government assistance. As a result, various forms of assistance offered are not being taken up by SMEs. Numerous issues related to the SMEs are also argued to be vague and inconsistent, especially at operational level, thus creating misunderstanding and disappointment among SME firms towards the government agencies.

SMEs also face internal pressures that impede them from expanding into the international market. These include a lack of knowledge, limited financial ability and being less innovative. A lack of information on foreign markets and limited international experiences primarily related to legal issues in the foreign markets and international regulations impede their internationalization process. These limitations demotivate them from entering foreign markets as the risks associated with that would be higher. The financial assistance offered to SMEs is also limited, especially for establishing a business abroad. SMEs were also found to be less innovative and flexible as they are unable to adopt the latest technology and lack involvement in research and development. ICT implementation is also at a low level, i.e. <20 per cent, and still at a basic level for simple accounting and word processing. The applications of sophisticated technology, such as supply chain management, enterprise resource planning and customer relationship management are negligible as their costs are high and problems of system maintenance exist. Recently, SMEs have faced increasing costs in their business operations, which further impede them from internationalizing. Table III summarizes the types of problems and their magnitude. Manufacturing, services and agriculture are severely affected by the rise in raw material and overhead costs, thus placing constraints on their cash flow.

### **SMEs' development programmes**

Many government agencies have been established to conduct the government policies and programmes that have been planned for SMEs. Among them are:

- Effort Trust of Malaysia.

**Table III.**  
Types of recent  
problems faced by  
SMEs in 2010

Recent problems	Frequency of problems faced by the SMEs (%)
1 Increase in the cost of raw materials	54.2
2 Rising overhead costs	51.8
3 Cash flow problems	37
4 Delay in payment collection	35.3
5 Lack of external financing	33.8
6 Reduction in demand	31.4
7 Labour quality and skills issue	22.8
8 Labour supply issue	21.9
9 Difficulty of coping with the increase in demand	17.5
10 Ringgit fluctuation	14.9

**Source:** SME Corp (2010)

- Cooperative Bank of Malaysia Limited.
- Central Bank of Malaysia.
- Malaysia Development Bank Limited.
- Malaysia Agricultural Bank.
- SME Bank.
- Credit Guarantee Corporation Malaysia Limited.
- Entrepreneurship Reserve Fund.
- Citizen Trust Council.
- Malaysia Debt Ventures Limited.
- Malaysia External Trade Development Corporation.
- Malaysian Industrial Development Authority.
- Malaysian Technology Development Corporation Private Limited.
- Malaysian Timber Industry Board.
- Malaysian Venture Capital Management Limited.
- Malaysian Industrial Development Finance Limited.
- National R&D Centre.
- Multimedia Development Corporation Private Limited.
- National Agency Limited.
- National Entrepreneurs Agency Limited.

Among the policies and programmes implemented for SMEs to internationalize include establishing the Malaysia External Trade Development Corporation (MATRADE), an agency to develop international markets overseas for SME products and services. MATRADE organized a trade show for SMEs to explore new market opportunities, at which they exhibited their goods, demonstrated their services and established networking with foreign firms. A fund was also provided for exporting activities. Various incentives, such as tax deduction, were offered to SMEs who managed to

acquire new technology or gain new export markets for a local product. SMEs were also assisted in branding their products and services in the international market. Various regional SME programmes have been set up, such as SME Programmes under ASEAN and APEC across industries in the manufacturing sector. The most recent programme is known as the Going Export (GoEx) Programme, which offers customized assistance to new exporters and SMEs venturing into new markets. Export-ready firms can avail themselves of comprehensive support which, among others, includes linkage to market expertise and buyers, and compliance to standards to expedite internationalization of services and products.

Consistent with the national industrial policy, SMEs have been encouraged to create inter- and intra-linkages to support larger industries. One example of this inter- and intra-linkage is the Global Supplier Programme (GSP). At present, the GSP is dominant in providing more opportunities for SMEs to participate in the global supply chain. Most of the efforts initiated were oriented towards building SMEs' capacity and capability. Of all the programmes, 73 per cent were intended to build capacity and capability, while the other programmes were intended to enhance access to financing and to strengthen infrastructure. Table IV indicates the number of programmes and the number of SMEs that have benefited from them, as well as the costs of the programmes. The programmes devoted to building capacities and capabilities can be classified into four major areas: entrepreneur development, human capital development, marketing and promotion, and product development. Many SMEs have enjoyed and reaped the benefits offered by the government in various roles, as shown in Table IV. More than 614,242 SMEs have been assisted through 226 development programmes initiated by the NSDC, involving a total expenditure of RM7.1 million (USD2.4 million). These programmes provide business support services, entrepreneurship training, technical training, business premises and factories. Among the specific programmes offered to the SMEs in enhancing their capabilities are:

- (1) Vendor Development Programme.
- (2) Integrated Market Programme.
- (3) SMEs Expos and Industrial Fairs.
- (4) Subcontract Exchange Scheme.
- (5) Human Resource Development.
- (6) Foreign Technical Assistance for SMEs.
- (7) Product and Market Segment Study.

Strategic thrusts	Number of programmes	Number of SMEs benefiting	Cost in RM(million)/USD (million)
Strengthening enabling infrastructure	23	6,672	RM 179.8/USD 60
Building capacity and capability	165	338,134	RM 717.8/USD 239
Enhancing access to financing	38	269,436	RM 6, 256.1/USD 2,085
Total	226	614,242	RM 7,153.7/USD 2,384

Source: SME Corp (2010)

**Table IV.**  
SME development  
programmes in 2010

- (8) Industrial Technical Assistance Fund (ITAF).
- (9) Soft Loan for Modernization and Automation.
- (10) Infrastructure Development Programme.

A national microfinance programme, which was launched in October 2007, was taken up by 26,000 micro enterprises, with total micro financing of RM271 million (USD90 million). In 2008, RM3.2 billion (USD1.1 billion) was allocated to 198 key programmes that benefit SMEs across all economic sectors, in the areas of enhancing supporting infrastructure, building capacity and improving access to financing. Table IV summarizes the percentage of SMEs that have benefited from the government programmes.

Regarding financial aid, Table V indicates that SMEs benefited most from soft loans and matching grant financial assistance. The government support through its financial agencies has shown to have a significant effect on SME ventures. There were 26 agencies involved in providing financial assistance to SMEs in the form of soft loans, grants, equity financing, venture capital, guarantee schemes and tax incentives. In 2007, the non-performing loan ratio declined to 9.1 per cent from 11.1 per cent, and a total of RM63.2 billion in financing for more than 132,000 SMEs by banking institutions and development financial institutions was approved. As for marketing and promotion activity, the Ministry of Entrepreneurs and Co-operative Development (MECD) and MATRADE have organized several promotional programmes locally and abroad for SME products and services. Government aid in terms of tax and incentives, pioneer status and investment tax allowances (ITA) has also helped SMEs in developing their physical infrastructure and business premises. The government provides business premises, factories, business stalls and incubation centres.

**SMEs networking**

The SME Convention provides a policy for SMEs to contribute their experiences and information, as well as to establish networking among each other. Business matching sessions are also arranged in conjunction with the convention to provide a medium for SMEs to build business linkages, as well as outsourcing opportunities. Two main programmes were established to encourage networking among the SMEs: the

Government programmes	Frequency of SMEs that benefit from the programmes (%)
1 Soft-loan financial assistance	36.4
2 Matching grant financial assistance	36.0
3 Training, seminars and workshops	35.8
4 Marketing and promotions by the government	23.1
5 Government websites and TV programmes	21.6
6 Tax benefits and tax exemptions	21.3
7 Business advisory services or one-stop centres	21.3
8 Government publications, pamphlets, brochures, etc.	19.1
9 Pioneer status and investment tax allowance	16.7
10 Physical infrastructure and business premises from the government	16.1

**Table V.**  
Government programmes that benefit SMEs

**Source:** SME Corp (2010)

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Enhancement Programme and the Industrial Linkages Programme. The Enhancement Programme assists SMEs in building their capacity to attain market requirements on both domestic and international levels. By implementing the programme, SMIDEC collaborates with selected government technical agencies, such as the Standard Industrial and Research Institute of Malaysia and Malaysian Agricultural Research and Institute. Assistance is given to certain SMEs through a package, comprising of grants and financial assistance programmes under the monitoring of SMIDEC and soft loans, including those from commercial banks. This programme covers all development phases of the SMEs. The other programme, the Industrial Linkage Programme (ILP) is a programme developed to create linkages between domestic SMEs, multinational companies (MNCs) and large companies. The programme provides opportunities for Malaysian SMEs to be integrated into the supply chain, thus increasing the domestic content. Under this programme, various incentives were also given such as grants, soft loans and other capacity-building programmes. The purpose of ILP is to encourage and transform SMEs into suppliers of MNCs and large companies, integrate them into the mainstream of industrial development, and offer opportunities to increase domestic value-added and local content. Incentives were also given in terms of Pioneer Status, with 100 per cent exemption on income for five years; or 60 per cent ITA on qualifying capital expenditure incurred within a five-year period with 100 per cent exemption on income. The most recent programme, known as the Technology Commercialization Platform (TCP), aims to provide a national network of a privately managed platform to promote innovative ideas from proof of concept (POC) through to the commercialization stage. The TCP will be designed to remove market barriers of innovation by providing linkage to a range of services, including infrastructure support, financing, technical assistance, market information and capacity building.

### **Discussion**

This study acknowledged the significance of SMEs' economic growth in the emerging countries, therefore their success in international expansion is an advantage to these countries' development and competitiveness. This study contributes to the body of knowledge of international business and entrepreneurship literature in three ways. First, research on SMEs from emerging countries involved in the international market tend to be limited in literature – most are concentrated on the developed countries; thus this study should extend the understanding of the internationalization process among SMEs. Second, this study focused on the impediments facing SMEs in their implementation strategies which represent the practicality of the phenomenon, thus bridging the gap between theories and realities. Third, this study brings to light the significance of networking relationships in international business and entrepreneurship, primarily for SMEs due to their size limitations. Finally, the meta-analysis technique, which is seldom used in the international business and entrepreneurial literature, is adopted in this study. This technique provides another approach for the researchers to examine and address the issues in this field.

This study found that Malaysian SMEs faced external and internal impediments in their efforts to expand their operations internationally. Externally there is a lack of skilled workers available in the domestic labour market, increased competition in the domestic market due to the regional economic agreement among neighbouring countries, a lack of physical infrastructure allocated to the SMEs, and government

assistance offered does not reach SMEs due to bureaucracy and poor communication. Internally SMEs also have to deal with a lack of product and market knowledge, limited financial abilities to fund their investment and research and development activities, and finally, not being adequately innovative to be in the international market. The external environment such as increasing operational costs and the price of raw materials, the incapability in managing the demand fluctuation and producing quality products and services, as well as their inability to absorb the Ringgit Malaysian currency fluctuation; recently exacerbated the SMEs' performance and negatively affected their value chain process. Internally, the impediments faced by the SMEs were aggravated through their incompetence in managing the financial matters – primarily in receiving payment as well as accessing finances. Despite the impediments they encountered, the SMEs still obtained benefits from various policies, programmes and incentives provided by the government. This reveals that government involvement has contributed significantly to the growth of the SMEs in the country. Recognizing the importance of networking for SMEs to internationalize, programmes have been developed to force them to establish networks and linkages through a variety of collaborations.

### **Conclusions**

This study indicates several implications for managers and policymakers. Malaysian SMEs need to evaluate their capability before embarking into new geographic locations and engaging internationally. With diverse programmes offered by the government, SMEs have a wide range of choice when involving the whole value chain activities, either through marketing their products in the market or manufacturing and supplying the products to large firms or MNCs. Becoming involved in international markets is not only about expanding the market but also about seeking lower costs and resources, as well as operating with management efficiency. Furthermore, this study reveals that policymakers should focus on developing a programme that would add value to the SMEs whilst taking into account their size constraints. Many policies and programmes would be effective if only they were consistent and monitored directly – if they are not they may result in increasing bureaucracy and the confusion among the SMEs, as well as increasing their financial losses.

As a recommendation, government agencies should assess their key role and differentiate themselves from one another to avoid redundancies among them. This would help to resolve many impediments related to the bureaucracies and their overlapping, as well as conflicting procedures. Further training should also be developed for SMEs to improve their products and marketing knowledge of international markets. The SMEs' need to be taught the ability to formulate strategies to enable them to create their competencies and capabilities both locally and internationally. Networking programmes should be emphasised and expanded as they are crucial to success in the international market. Networking and linkages must involve inter-industry and intra-industry as well as local and international partners. Further studies can be performed in the future to examine specifically the effectiveness of the development programmes and networking programmes among SMEs. Advanced studies should also be conducted in specific sectors within SMEs, such as Information, Communication and Technology (ICT) and the service sectors. It would also be interesting to investigate further how the SMEs utilize all the programmes provided by the government and continue to grow and internationalize in the new geographic locations.

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