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Entrepreneurial Environment on Internationalization Initiatives: Malaysian SMEs Perspectives

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Abstract

Small and medium enterprises (SMEs) in Malaysia are recognized as one of the drivers of the economy, as reflected by their role in supporting the economic growth, job creation, promoting the entrepreneurial environment, expand the tax base and the drivers of innovation. SMEs are also urged to participate in the international market not solely to develop their growth and expansion, but also their participating role in the development of nations' economy. Thus, this qualitative study aims to discover and provide substantial information about the entrepreneurial environment on the internationalization initiatives of Malaysian SMEs to venture the global market in the perspectives of the perception of international business; technological environment and ICT; and the growth strategy. A series of semi-structured in-depth interviews were undertaken with four owners of SMEs business represented by two personals from each manufacturing sector and services sector respectively. The findings indicated that, SMEs will consider things such as the operation of business, foreign culture, currency and language, rules and regulation and also the opportunity for their international business strategy. It was also revealed that the implementation of ICT can be a catalyst for growth in the international market since it able to reenergize the business through myriad functions and accessibility. The adoption of technology such as advanced or sophisticated machinery, can boost the production effectively and efficiently that crucial as one of the criteria for success in the international market. SMEs also will attempt to increase the production, create a new product, explore a new market, diversify products, knowledge improvement, and conducting research and development (R&D) activities for their growth strategy. It is anticipated that this study could be useful for entrepreneurs, policy makers and authorities in developing the strategies and promotes internationalization entrepreneurial environment in Malaysia. Other than these substantial findings, the limitation and future study also discussed.

Keywords: Entrepreneurial environment, growth strategies, ICT, internationalization, SMEs, technology

1. INTRODUCTION

Venturing the international market is one of the initiatives in entrepreneurial environment as firms will discover the possibilities and opportunities to generate and exploit new market through the sharing of foreign assets, foreign sales and foreign employment (Głodowska, Pera & Wach, 2016). In Malaysia, small and medium enterprises (SMEs) play a vital role in shaping the economic landscape and encourage the entrepreneurial environment. This is recognized by a considerable abundant body of knowledge with the establishment, performance, growth, and contributions of SMEs to national economies (Mupemhi, Duve & Mupemhi, 2013). Generally, SMEs are described as the entities with the number of personnel fall below to a certain threshold or other criteria such as by

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size, asset, sales turnover, and paid up capital (Francis, 2014). In Malaysia, SMEs are categorized into service or manufacturing sector. For manufacturing sector, SMEs are grouped into three types of size which are micro (employees less than 5 and sales turnover of less than RM300,000); small (5 to 75 employees with less turnover from RM300,000 to less than RM15 million) and medium (employees from 75 to 200 with sales turnover of RM15 million to not exceeding RM50 million). Meanwhile, the services and other sectors are described as entities with sales turnover not exceeding RM20 million or full-time employees not exceeding 75 workers. Some scholars asserted that SMEs are the main focus for developing nation (Jan Khan & Khalique, 2014). This is reflected by the role of SMEs in supporting the economic growth in developed or developing nation (Iqbal & Rahman, 2015), for example through the creation of job, expand the tax base and the drivers of innovation (Katua, 2014) gross domestic products and export activity (ACCA, 2016). The government of Malaysia also recognized the important role of SMEs as the backbone of economy through the implementation of various policies, action plans and programs for the development and growth of SMEs. One of the initiatives is the establishment of National SME Development Council (NSDC) since 2004 as the agency to facilitate the development and observe overall performance of SMEs in Malaysia (Francis, 2014). This includes the inception of SME Masterplan (2012-2020) with the aim to create a globally competitive SMEs that can boost the country's gross domestic product (GDP) by 2020. Hence, one of the important growth strategies for SMEs to achieve this mission is through internationalization that allows them to gain crucial international experience and increase the company size. As stipulated in the National Economic Policy (NEP) and the Malaysian Development Plans (MDPs), there are two main guidelines to encourage the development of SMEs when deciding to go global. First, SMEs should produce a quality and high value-added products and services for both domestic and international markets. Secondly, SMEs should increase the productivity through the implementation of modern technology and management to raise the SMEs competitiveness in the export market (Chelliah, Sulaiman & Mohd Yusoff, 2010).

The condition for internationalization SMEs is also affected by favorable entrepreneurial environment which is the circumstances of environment that creates the beneficial conditions for all regardless of the one's origin, legal form, size and so forth (Głodowska et al. 2016). In this case, entrepreneurs must have the sense of entrepreneurial environment that will consider a long-term sustainable economic growth which is essential for business development and improve competitiveness (Głodowska et al. 2016). Due to stiff competition and imitation of the products in domestic market, SMEs profitability and performance is reduced, hence induce them to venture international market. According to Mupemhi et al. (2013), factors like intense competition, funds, market knowledge, management attitudes, risk perception and international network positively influences the SMEs to further their business globally. In this context, internationalization is deemed increasingly important for SMEs not just for these companies develop their growth and expansion, but also their participating role in the development of nations' economy. Despite the fact that challenges may await SMEs in the internationalization such as domestic acceptance in local markets, meeting international standards, branding, sourcing marketing products or even other risks and vulnerability to global developments, it also opens the opportunity for SMEs to enhance their market share (Francis, 2014). SMEs also can take advantage of cross-border activities not just for revenue growth, but also sharing and exchanging knowledge and the enhancement of capabilities which promise the long-term competitiveness of the company (Wilson, 2006).

Therefore, this study attempts to discover the entrepreneurial environment on internationalization initiatives of Malaysian SMEs if the company decides to venture the international market share. Most of the early studies related to internationalization strategies have dealt with large firms, leaving SMEs rarely investigated (Iplik & Kilic, 2009). In a similar vein, Osei-Bonsu (2014) also mentioned that internationalization of SMEs are well studied in the developed industrialized countries, but there is still lack of evidence from developing countries. Hence, there is still insufficient knowledge in the area of internationalization of SMEs (Westhead, Wright & Ucbasaran, 2001; Iplik & Kilic, 2009) especially in the developing countries such as Malaysia. To address this gap, this paper tried to explore the initiative or strategies from the perspective of Malaysian SMEs. Thus, it is expected that a better understanding of the initiatives and process entering the international market will help SMEs to formulate their internationalization strategy and may reduce the potential obstacles to success.

2. LITERATURE REVIEW

According to Lu and Beamish (2001), the concept of internationalization can be described as the "firms that increase their awareness of the direct and indirect influence of international transactions on their future, and begin to engage in transactions with firms in other countries" (cited in Iplik & Kilic, 2009, p.106). It also can be referred as the enactment, discovery, evaluation and the exploitation of opportunities in cross border activities in order to create future goods and services (McDougall & Oviatt 2005). There are various forms of SMEs internationalization environments such as exporting, the creation of cross-border alliance and of course the establishment of operations in other country (Wilson, 2006). According to the World Trade Organization (WTO)

(2016), the most common form of internationalization chosen by SMEs are direct exports and indirect exports, non-equity contractual agreements, foreign direct investment (FDI) and other forms of equity agreements. By venturing the international market, it can benefit the SMEs in many ways, for example the business risks could be dispersed across different markets; improving revenue collection through investing in technology and production; collaborate with foreign companies; and access to foreign market (Yuhua, 2015). Previous studies have documented various interest to study SMEs entrepreneurial environment and internationalization initiatives. Among the fields of study including marketing, management, international business, entrepreneurship, public policy and economics (Cui, Walsh & Gallion, 2011). Prior researches also examined the performance of SMEs (Gamage, 2007; Chelliah et al. 2010; Zakaria, Hashim & Ahmad, 2016); SMEs strategy (Knight, 2001; Lis, Nienstedt, Proner, Yalazi & Mauch, 2012); challenges (Abdul Rahman, Yaacob & Mat Radzi, 2016; Khalique, Md. Isa, Abdul Nassir Shaari & Ageel, 2011) as well as the motives and threats of SMEs (Mpofu, Chigwende, & Karedza, 2013). SMEs approach on internationalization are normally influenced by the action to explore and exploit the market (Cui et al. (2011) and the influence by the internal or external entrepreneurial environment (Andreeva, 2009). Analysis of entrepreneurial environment could explore the elements such as competitive environment and company's potential to expand their business (Giodowska, et al. 2016). Only SMEs with high level of exploration capability, willing to take risk and respond to opportunity aggressively may take the effort to further internationalization market (Cui et al., 2011).

Entrepreneurs will be encouraged to create new business venture in environment conducive to entrepreneurship (Sadeghi, Mohammadi, Nosrati & Malekian 2013). There are five broad categories of entrepreneurial environment such as government policies and procedures, entrepreneurial and business skills, socioeconomic conditions, financial assistance, and non-financial assistance (Sadeghi et al. 2013) Different organization has their own different requirements and objectives, thus reflecting different types of business strategy formulated in order to expand the business globally (Zakaria et al. 2016). Among the initiatives for SMEs to internationalized are through the partnerships as it offers the experience, technology and financial potential of their partners Oltean (2013). SMEs also tend to consider the firm characteristics such as age size, funds and sources of funds; managerial characteristics, such as experience, attitude and perception and also environmental characteristics such as technology, competitors, network and regulations that perceived to be related with the ability to go international. In order to pursue the expansion to international market, SMEs also will consider their production capabilities, domestic market conditions, and also the financial and non-financial outcomes as the critical factors (Osei-Bonsu, 2014). Mupemhi et al. (2013) support the notion that factors such as funds, management attitudes, market knowledge, risk perception, international networks and intensity of competition is positively influenced SMEs internationalization.

Another factor that is importance for developing SMEs to be global is the technological environment and information, communication and technology (ICT) adoption. According to Byrne (2000) and Scott (1999) cited in Murad and Thomson (2011), organization will be at a competitive disadvantage if they are unable to adapt and keep the pace with the changes in technology. In Malaysia, the government is concerned about the technology development since this nation aiming to achieve developed nation status through emphasizing science, technology and innovation development. The technological environment can enhance the production capacity of a firm effectively and efficiently where the products and services produced, will significantly increase the benefits to consumers and results in faster economic growth (Matejun, 2016). Since most SMEs business has limited resources, thus they also need to overcome the technology limitations and equipped with the latest technology in order to survive and sustain (Pednekar 2015). Hence, technology is crucial for SMEs as it will contribute to the value creation and affects firm performance positively (Pednekar, 2015). Technological environment not only benefits the production, but it also promotes innovativeness in SMEs that will attract potential research and development (R & D) initiatives (Matejun, 2016; Al-Mubarak & Aruna, 2013). The adoption of ICT in business such as internet and computer have initiated the e-commerce or e-business that is proven to improve the business processes. This allows information and communication rapidly spread and businesses in different part of the world become more integrated (Matambalya & Wolf, 2001). The internet facility allows SMEs to have advance communication capabilities with various medium such as e-mail, sharing file, creating websites and also e-commerce platform (Abdullah, 2014). The ICT use also has myriad roles for example as strategic management and cost reduction; promotes innovation and productivity of firm; and enables closer links between businesses, suppliers, customers and collaborative partners (Abdullah, 2014).

The SME's intention to internationalization initiative is also associated with growth motives. OECD (2009) report suggests that firms which are motivated by growth intention for their business were likely to export twice than the firms that do not indicate growth as their intentions. The intention to go global is also affected by the firm's vision to expand their business. In explaining the internationalization process, SMEs initially starts as domestic firms and they gradually develop their capacity to grow and eventually penetrate and become active in the international

market (Yuhua, 2015). However, cost and financial resources are the main concern for these initiatives. Therefore, government and related authorities must consider this factor to facilitate SMEs in terms of providing sufficient information with guidance to develop their capacity to grow in the international market (Yuhua, 2015).

3. RESEARCH METHODOLOGY

This study adopts a qualitative analysis and a random sampling technique was used targeting SMEs as the sample. A qualitative approach is chosen since the exploratory nature of qualitative method qualifies the gathering of data in a wider scope (Creswell, 2003). This approach also allows researchers to get a deeper understanding of the phenomena being studied. Therefore, qualitative approach is deemed appropriate as this study emphasis on the perceptions and opinion of SMEs owners regarding the internationalization initiatives. A series of semi-structured in-depth interviews were undertaken with four owners of SMEs business represents by two from manufacturing sector and another two from services sector. Each interview took approximately in one to two hours. The interview question was designed mainly covered the topics centered on internationalization initiatives or strategies that these SMEs will use if they attempt to enter the international market. Within this context, the interview questions also were guided by three unit of analysis that are perception in international business; technological environment and the information, communication and technology (ICT) in business; and growth strategy for the international market. The interview session was recorded using digital devices with the consent from the SME's owners. The interview sessions has been conducted at the SMEs' respective office with the selection of four SMEs were in Klang Valley area. The data from the interviews are then transcribed into a written form. Data was analyzed to identify and examine the information and patterns from the interview were divided according to the three unit analysis and highlighted the relevant information. The analysis of data was also based on extensive reading from all sources of literatures in order to identify the common patterns. Therefore, important key points from the information are retrieved and only reliable information is presented in this study.

4. RESULT OF THE STUDY

Two respondents of this study were from manufacturing sector with one involved in food manufacturing and beverages products and the other one involves in textile and wearing apparel business activity. Whereas, another two respondents involved in wholesale and retail trade from the services sectors. The results were presented according to each unit analysis supported by the excerpt interview session. Three respondents are female and one male respondent with the age ranging from 32 – 45 years old. Two respondents has experienced in business for more than 15 years and the rest is less than 5 years. This study also found that all business owners established their firms financed by their own savings and venture the business after quitting their previous employment averagely with five years tenure. All respondents are sole entrepreneur and their businesses are registered with SME Corporation of Malaysia.

4.1 SMEs Perceptions on International Business Strategy

Respondents in this study have different perceptions about internationalization of SMEs business. Some of them are looking forward to enter the international market (R1, R2 and R3) while another are comfortable to only reside in domestic markets (R4). Respondents 4 suggest that his company needs to strengthen the existence and withstand in the domestic market before attempting to become international player. Most respondents believe that there are many things to be considered in terms of initiative or strategies that could be used if they internationalize their business. For instance, the operation of business, foreign culture, currency and language, rules and regulation and also the opportunity that may exist. As pointed out by Solorzano (2012), it is necessary for SMEs to understand the different regulations as well as enhancing their knowledge, product specifications, product capacity and trade policies. This is shown by the following responses:

“If I have the opportunity to expand my business globally, first thing that I must do is to upgrade my technology and machinery, so that I can increase the production and yield the products that will meet international standards. My product will get more recognition around the world” – [R1]

“...I need to consider several things such as understand the foreign language, their culture, rules and regulations and I also must consider the currency fluctuations in the international market where I want to pursue my business” – [R2]

The respondents also realize that to enter international market is a big decision, despite the fact that opportunity is wide open, they also concern with the stiff competition, and therefore SMEs must have enough preparation and capabilities to expand the business globally. Hence, SMEs must be able to generate growth through improvisation of strategy. For example, engage in innovation, invest in technology and access to foreign market that will assist

the operational efficiency and production capacity (Yuhua, 2015). For this study, the respondents perceived that, to participate actively in the international market, SMEs are required to improve their product distribution, marketing, branding, design, and invest on research and development.

“International market is really wide and it is tough, therefore my strategy is to improve my product distribution, be more creative in designing, branding and marketing the products in order to compete” – [R3]

“In my opinion, in order to penetrate the international market, it means that an investment must be made in research and development to make my products acceptable and meet the international standard” – [R4]

All respondents agreed that internationalization of SMEs has many benefits in economy of scale, business growth, increase revenue and profit but it also comes with many challenges not only to improve their production capacity and quality but also to survive in the competition. Therefore, a deep understanding and knowledge about international market are crucial to progress the business further (R3). This is in line with Wilson (2006) stated that factors such as cultural differences, information or skills, networks, language and access to necessary finance need to be considered if SMEs attempt to go international.

4.2 SMEs Perspectives on Technological Environment & ICT for Internationalization

This study also attempts to gather information whether the technological environment can be one of the internationalization initiatives. All respondents agreed that the adoption of technological environment in business activity is important factor to make internationalization of SMEs a realizable dream. Technology evolves rapidly and its existence is to ease the human daily activities. In manufacturing activity, the adoption of technology such as advanced or sophisticated machinery, can boost the production effectively and efficiently that is important as one of the criteria to success in the international market (R1 and R2).

“As for now, our company have a new high technological machine which is only eight factories have this machine in Malaysia. My factory can produce a good quality food product and extend the product’s expiration date. With this machine, I am confidence that my business have the chances to go global” – [R1]

“Technological environment in the business really give positive benefits to my business. In my opinion, one of the implications of having technological environment applied in most entrepreneurial business is that it allows entrepreneurs to reach new potential international market” – [R2]

“Before this, my company’s production are operated with manpower with the help of small machine. But now, I use advanced machines which make the production faster and in greater quantity of products. It saves the amount of time and also reduces the cost of labor. For me, if I want to venture international market, technology is very important and I do need a more advanced technology not just machines, but all aspects in business activity and operation...” – [R3]

“I started business with just one machine and unable to fulfill the market demand due to slow production. As the business grew bigger, I upgrade a better quality and increase the number of machines. Since international market is a bigger market, it means that I need a technology that can fulfill the capacity for international market demand” – [R4]

All respondents recognized that technology is important to their business activity and operations. The adoption of technology can be regarded as value for money since all respondents approved the positive impact of technology in terms of production efficiency and cost effectiveness (Pednekar, 2015). The technological environment also has significant impact on SMEs growth since it promotes the innovativeness as well as encourage research and development initiative by firms (Matejun, 2016).

The respondents were also asked about the use of ICT and its impact on SMEs internationalization. All respondents agreed that ICT in business world have a huge impact in shaping the business landscape especially in large market and highly competitive environment. Respondents also opined that the implementation of ICT can be a catalyst for growth in the international market. This is because ICT can reenergize the business through its myriad functions and accessibility. For instance, the growing use of digital devices and internet have improved communication throughout the world where people can get connected remotely and the access of information at one’s fingertips (R2).

“...the use of ICT is proven to benefits my business as it provide a wide coverage to reach customers locally and internationally, reduce the cost of promoting and marketing of products, and provide me a flexible time” – [R1]

“I use social media platform such as Facebook, Twitter and Instagram to promote and make people know about my products. This platform is very useful and gives positive impact to my business. For me, this is a very good platform and I will still use it as one of my strategy to expand my business globally” – [R2]

“With the usage of computer and internet nowadays, we are not only can improve our business operation and promotion of products domestically, but people and other business around the world will acknowledge our business existence” – [R3]

“ICT vibrant up the business environment nowadays, I can see the concept evolves from physical business to cyber or online business which gives a positive impact to the entrepreneurs as they also offer online shopping to customers. This is a one step forward for SMEs in the business world as it can save time and also reduce the operating cost for business” – [R4]

From the respondents' perspective, the integration of ICT and business can be seen as an enabler for organizational changes that can boost the firm performance. ICT has beneficial impacts in enhancing business activities that most business use for products promotion, sharing and enhancing knowledge as well as the opportunity to collaborate with other companies especially the supplier and retailer. Abdullah (2014) support the notion that the internet allows SMEs to have advanced communication capabilities with various medium such as e-mail, sharing file, creating websites and also e-commerce platform where they can communicate and integrated each other regardless of geographical differences.

4.3 Growth Strategies and SMEs Internationalization

In order to expand the market globally, SMEs need to plan their growth strategy to ensure the penetration of market will run smoothly to increase sales and profits (R2). There are many methods used by company to expand its business. In this study, the respondents were asked about their perception of growth strategy based on four common growth strategies in business such as market penetration, product development, market development and diversification strategy. All respondents believed that growth strategy is compulsory for SMEs that decide to pursue the international market. Among the strategies mentioned are increase the production, create new product, explore new market, product diversification, improve the knowledge, and conducting research and development activities. This is revealed in the following responses:

Product development strategy:

“I want to enhance the growth of market products in niche market within Malaysia and ASEAN countries such as Singapore. I also looking forward to produce high premium products emphasizing on natural ingredients for our customers. I also need to build up customer and stockist database. Next, I will strengthen the online marketing so that I can reach wide range of customers” – [R2]

“I want to improvise my products in terms of the variety of flavor and more interactive packaging to attract more international customers” – [R4]

Market development strategy:

“From my experience, everything I did in business is step by step. I start from boutique that provides ready stocks of apparels for different age levels. Then I extended a scarf's boutique and finally I also able to provide tailoring service in all my boutiques. For products also, I promote it through online marketing besides advertising in magazine and I once have sponsored my apparels collection to be used in a television program which I believe it attracts more customers while promoting the best quality of my products. I can see my business grow gradually and perhaps in the future I can explore new market in the international arena” – [R3]

Penetration strategy:

“I want to open another branch and introduce my products in new market. At the same time, I will continually learn and gain more knowledge, searching ideas and perform R&D to improvise my products in line with current trend and also increase the marketing strategy to make people aware about products” – [R1]

“I want to increase the quality and quantity of my products and promotes them in new geographical market” – [R2]

“I want to make my product to be sellable in the big or international wholesalers like Giant and Tesco so that many people and customers will know about my product and company”- [R3]

Diversification strategy:

“I would like to diversify my products and perhaps my business. Maybe in the future, I will have more than one business but related to my first business activity for the international market” – [R1]

Respondents understand that internationalization process provides a potentially wider market to capture more sales and profits. However market potential will dramatically change over time. It takes into account the price fluctuation and technology competition from large companies. Thus, market potential requires SMEs to employ the appropriate strategy in terms of market entry, market development strategy, product development strategy and diversification strategy to counterpart the risks and challenges in the international market (Lis, 2012). In terms of market development strategy, a gradual but continuous growth is more suitable to be applied by SMEs in pursuing the international market (R3). This is parallel with Hauge (2001), who stated that, business development may require myriads of strategies along with the gradual and planned venues of strategic models before it grows and expands.

5. CONCLUSION

This study discovered some fruitful findings worth to be considered. Most respondents believe it is not easy to set up a business, but with knowledge, experience and the competency to analyze the entrepreneurial environment can be the catalyst to be successful entrepreneur. All respondents viewed entrepreneurial environment and internationalization initiative as a wider scope in business to increase sales and profits and consider it as the next phase that must be pursued. Hence, they perceived that factors such as the operation of business, foreign culture, currency and language, rules and regulation and also the opportunity must be considered as among the international business strategies. Entrepreneurs also do aware about stiff competition in international market, therefore, to participate actively, SMEs are recommended to improve their product distribution, marketing, branding, design, and invest on research and development. Apart from that, the adoption of technology and ICT is viewed as important element to enter international market since it can boost the production effectively and efficiently, as well as enhancing their visibility and accessibility. This study also discovered that entrepreneurs will increase the production, create new product, explore new market, engage in product diversification, improve knowledge, and conducting research and development activities as their effort to enhance their growth strategy to venture international market. Therefore, policy makers and authorities in Malaysia may take this view to outline the appropriate framework, policies and guidelines or reviving the existing one to produce more SMEs that are capable to exploit the international arena. Since internationalization initiative of SMEs is increasingly in demand, therefore, SMEs need to be more proactive and utilize their capabilities and resources to achieve full potential and become more competitive.

This study is restricted to several limitations, for example, it only focuses on the four unit of analysis that is internationalization strategies, technological environment and ICT and growth strategies, given that there are still many factors need to be explored that could become the initiative for SMEs to be internationalized. Other than that, this study is qualitative in nature and the population sample may insufficient to make a sweeping statement to generalize the findings to all SMEs. Future study may include other factors that potentially become the initiative for SMEs going global. A larger sample size and quantitative analysis also must be considered in the future to obtain thorough and robust results. Among other focus for future studies should also cover the factors that can motivate SMEs to pursue international expansion and factors that hindering Malaysian SMEs to go global.

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