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The internationalisation of Malaysian manufacturing small and medium enterprises

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Southern Cross University

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THE INTERNATIONALISATION OF MALAYSIAN MANUFACTURING SMALL AND MEDIUM ENTERPRISES

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BCom (ANU), MPP (NUS)

THIS THESIS IS SUBMITTED FOR THE DEGREE OF DOCTOR IN BUSINESS ADMINISTRATION SOUTHERN CROSS UNIVERSITY AUSTRALIA OCTOBER 2008
DECLARATION

I certify that the work presented in this thesis is, to the best of my knowledge and belief, original, except as acknowledged in the text, and that the material has not been submitted, either in whole or in part, for a degree at this or any other university.

I acknowledge that I have read and understood the University's rules, requirements, procedures and policy relating to my higher degree research award and to my thesis. I certify that I have complied with the rules, requirements, procedures and policy of the University (as they may be from time to time).

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Tan Lin Lah
Date:
ACKNOWLEDGEMENT

More than a decade ago, a silent wish was made that perhaps some day He will provide the opportunity, „right timing“ and resources to embark on a doctoral path. The wish, albeit slow to progress, has „blossomed“ with the support, encouragement and dedication of many around me.

My late father, Tan Chin Choon, who believed in education, regardless of gender.

My mother, Mdm. Lee Saw Keow, my siblings and their families, Kee Tat & Huai Yaw, Zhi Wei, Zhi Yang, Zhi Ming; Luna & Ivan, Wern Xin and Lesa, who have always allowed me to be „different“ and love me just the same.

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Staff of the Graduate College of Management, SCU and Unity College International for their assistance.

The very many close friends, near and far, who supported me through this endeavour with their prayers, care and understanding.
ABSTRACT

This exploratory research identified the critical factors for the successful internationalisation of Malaysian manufacturing small and medium enterprises (SMEs) for contending with the challenges emerging from globalisation. Four research propositions, based on the identified research gaps, were tested by this research. The findings yielded new and useful insights on the research problem and six salient recommendations for consideration by the Malaysian Government and the manufacturing SMEs.

First, for the Malaysian Government to critically review its support policies for SMEs. The findings revealed that several SMEs remained unaware of the available support policies, programmes and measures. This suggests that the Government devote more attention on promoting and publicising them.

Second, a perception by some export manufacturing SMEs that they were not eligible for support from the Government. This requires the Government to reassure them that its policies are aimed at assisting all SMEs and are not discriminatory.

Third, the application procedures and the delivery systems which appeared to act against the SMEs for securing Governmental support. These pinpointed the need for loan and grant applications to be made “applicant-friendly” and for the Government to critically review the delivery systems for SMEs support.
Fourth, for the SMEs to be better equipped to successfully compete in the global "new economy". This requires them to move up the value chain, acquire international business skills, master global languages, form international linkages, participate in global supply chains and develop technological capabilities to produce high quality, innovative branded products.

Fifth, to enhance management practices. This requires the hiring of competent staff, regardless of race, who understand the competitive landscape, know what their customers need and how their products can satisfy them.

Sixth, to emphasise on corporate social responsibility (CSR) practices. This study recommends that SMEs fully appreciate the importance of CSR practices by engaging a diversified workforce; adopting environmental protection practices and enhancing employee well-being.

Theory development was another important outcome of this research. The research findings permitted the construct of a modified international entrepreneurship model. Finally, it offered suggestions for further research.

**Keywords**

- Research Problem
- Exploratory Research
- Research Issues
- Propositions
- SMEs
- Internationalisation
- Global Outlook
- CSR Practices
- Research and Development (R&D)
- Value Chain
ABBREVIATIONS

8MP   Eighth Malaysia Plan
9MP   Ninth Malaysia Plan
ADB   Asian Development Bank
AEC   ASEAN Economic Community
AFTA  ASEAN Free Trade Agreement
APEC  Asia Pacific Economic Corporation
ASEAN Association of South East Asian Nations
BNM   Bank Negara Malaysia (Central Bank of Malaysia)
CSR   Corporate Social Responsibility
DOS   Department of Statistics
E-commerce Electronic Commerce
E&E   Electrical and Electronics
EPU   Economic Planning Unit
EXIM Bank Export-Import Bank of Malaysia Berhad
K-Economy Knowledge Economy
K-Society Knowledge Society
F&B   Food and Beverage
FDIs  Foreign Direct Investments
FMM   Federation of Malaysian Manufacturers
FTA   Free Trade Agreement
GATS  General Agreement on Trade in Services
GDP   Gross Domestic Product
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<td>GLCs</td>
<td>Government Linked Companies</td>
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<tr>
<td>GOM</td>
<td>Government of Malaysia</td>
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<td>ICT</td>
<td>Information and Communications Technology</td>
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<td>ILO</td>
<td>International Labour Organisation</td>
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<tr>
<td>IMP2</td>
<td>Second Industrial Master Plan</td>
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<td>IMP3</td>
<td>Third Industrial Master Plan</td>
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<tr>
<td>IT</td>
<td>Information Technology</td>
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<td>MASSCORP</td>
<td>Malaysia South-South Corporation Berhad</td>
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<td>MATRADE</td>
<td>Malaysian External Trade Development Corporation</td>
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<td>MECD</td>
<td>Ministry of Entrepreneurial and Cooperative Development</td>
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<td>MIDA</td>
<td>Malaysia Industrial Development Authority</td>
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<td>MPIC</td>
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<td>MTDC</td>
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<td>NPC</td>
<td>National Productivity Centre</td>
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<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
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<td>OTOP</td>
<td>One <em>Tambun</em> One Product</td>
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<td>PEMUDAH</td>
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<td>RBV</td>
<td>Resource Based View</td>
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<td>RM</td>
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<td>SCA</td>
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<td>UNCTAD</td>
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CHAPTER 1: INTRODUCTION
CHAPTER 1 - INTRODUCTION

1.1 Introduction

A nation’s standard of living is linked to its ability to attain a high level of productivity in those industries in which its firms compete internationally (Porter 1990). Accordingly, governments and industry worldwide are finding ways to improve international competitiveness in global markets (Porter 1990; Hamel & Prahalad 1994; Aaker 2001).

Accounting for more than 99.2% of all manufacturing, services and agricultural establishments, there were more than half a million Malaysian small and medium enterprises (SMEs) in 2006. A vital component of the country’s development (IMP3 2006; Saleh & Ndubisi 2006; Fam 2007), they are the backbone and the growth gene of the Malaysian economy (The New Straits Times 5 October 2007). Malaysia’s continued economic prosperity largely hinges on its SMEs being able to increase their export earnings. This in turn is dependant on their ability to achieve competitive advantage in international markets.

Malaysian SMEs form an integral part of the value chain in the overall production process through both forward and backward linkages (Zeti 2007). Important suppliers and service providers to leading industries, they are also producers of finished goods and services. The Government’s Ninth Malaysia Plan (9MP) and the Third Industrial Master Plan (IMP3 2006) emphasise the national economic significance of SMEs. Both Plans, announced in 2006, incorporate strategies to enhance the global competitiveness of export orientated SMEs (IMP3 2006).

The forces of globalisation and the push towards trade liberalisation are transforming the international trade landscape. Malaysia is a member of the World Trade Organization (WTO) and is committed to economic regionalism through the ASEAN Free Trade Area (AFTA). These together with its bilateral Free Trade Agreements (FTAs) create new trade opportunities and challenges for Malaysian manufacturing SMEs (IMP3 2006).
Internationalisation is a necessary response to take advantage of the opportunities and to address the challenges associated with globalisation (Gjellerup 2000; Scholte 2000; Biddle 2002). Malaysian manufacturing SMEs have to internationalise to meet the new demands of the highly competitive international market place (IMP3 2006; Chew 2007). They also have to adopt corporate social responsibility (CSR) practices to meet customer and investor requirements in new external markets.

The empirical evidence indicated that the Malaysian Government is aware of these challenges. It has therefore a wide range of support policies and programmes to improve the international competitiveness of Malaysian SMEs. However, a preliminary literature review revealed limited prior research on the adequacy and effectiveness of the Government’s policies. The literature was also silent on the factors that Malaysian manufacturing SMEs must address in order to secure sustainable competitive advantage (SCA) in global markets; hence the need for this research.

1.2 The Research Problem

Research must start with an idea or a research problem. „The research problem drives or directs the research enterprise” (Berg, 2004, p. 28). Accordingly, the research problem requiring investigation and which underpins the entire process of the literature review, data collection and data analysis is:

„What are the Critical Factors for the Successful Internationalisation of Malaysian Manufacturing SMEs?’

1.2.1 The Research Questions

„Empirical research is driven by research questions” (Punch, 1998, p. 34). Since research can be complicated, good research questions enable the researcher to stay on track. The term „research questions” and not „research hypothesis” is used, in line with Perry (2001) who suggested, that if a research study is exploratory and uses a qualitative research procedure, research questions are more appropriate for the conduct of the research. The
Research questions, developed in Chapter 2, following a review of the research issues are stated below:

i) Why is it necessary for Malaysian manufacturing SMEs to emphasise on internalisation as a strategy for gaining sustainable global competitive advantage?

ii) Why should Malaysian manufacturing SMEs pay greater attention to CSR practices to meet the requirements of international customers and investors?

iii) How adequate are the existing public support policies for the internationalisation of Malaysian SMEs?

iv) What are the desired approaches for SMEs to internationalise their operations in the context of a globalising world?

1.2.2 The Research Objectives

Based on the research problems, the objectives of this research are:

i) To stress the need for Malaysian manufacturing SMEs to adopt internationalisation strategies for gaining global SCA.

ii) To highlight the importance of Malaysian manufacturing SMEs adopting CSR practices to meet the requirements of international customers and investors.

iii) To determine the adequacy of the existing public support policies for the internationalisation of Malaysian SMEs.

iv) To identify the desired strategic approaches for the internationalisation of Malaysian SMEs in the context of a globalising world.
1.3 Background to the Research

As shown in Table 1.1, Malaysian SMEs largely produce electrical and electronic (E&E) products, textiles and apparel, food and beverages, metals and metal products, chemical, coal, rubber and plastic products, paper printing and publishing and wood products (National SME Development Blueprint 2006).

Table 1.1 Distribution of SMEs in the Manufacturing Sector, 2006

![Pie chart showing distribution of SMEs in the manufacturing sector, 2006.]


The domestic and global economic environment are now characterised by the push towards liberalisation. As national economies open up, they are subjected to greater competitive pressures. The globalisation process brings both opportunities and challenges for Malaysian manufacturing SMEs (The Edge 22 October 2007).

Malaysian SMEs contributed only 32% of GDP in 2006. This was much lower than the contributions of over 40% in other regional economies including Thailand, Taiwan and Korea (SME Annual Report 2006). Accordingly, the Malaysian Government is giving top
priority to SMEs’ growth and increasing their competitive advantage in price, quality and delivery of manufactured goods (9MP 2006). The Government’s initiatives and programmes are aimed at enhancing the capabilities of SMEs in areas, such as, financial accessibility, advisory services, marketing, information and communications technology (ICT) and technology (MIDA 2006).

Globalisation forces are also changing the patterns of international trade and the location of global production centres. The lowering of tariffs and the removal of protectionist barriers through participation in the WTO, AFTA and the bilateral FTAs give Malaysian manufacturing SMEs the opportunity to move into new external markets (SME Annual Report 2006). This requires them to have a global outlook and an international orientation. They must understand different cultures and legal systems, acquire international business skills and master languages relating to the global business environment (Fong 1999; Mok 2007; Norton 2007).

“One of the biggest paradoxes of globalisation is that national and international competitiveness rest … on local factors that cannot be matched by distant rivals” (Arzeni, 2008, p. 2). Porter’s (1990) “diamond framework” sets out how local conditions influence firms’ competitive advantage in internationally competitive industries. The four components of the framework are i) factor conditions; ii) demand conditions; iii) related and supporting industries; and iv) strategy, structure and rivalry.

This implies that all four components of the framework must be in place for Malaysian firms to gain SCA. A conducive national policy environment is essential for the growth, expansion and competitiveness of Malaysian manufacturing SMEs. They should also benefit from the necessary physical infrastructure which includes power, water supply and transportation as these are necessary to move supplies and finished products speedily and at low cost. Equally important are good access to skilled workers, competitive suppliers and specialised marketing information. Public policy should encourage industry clusters as these facilitate linkages and complementarities between industries located at different stages of the production chain (Arzeni 2008).

The diamond framework also requires SMEs to increase investments in R&D for innovation as this is a means for entrepreneurs to take advantage of change for offering
differentiated products or services (Drucker 1985). Furthermore, they should also change their mindsets (Wong 2007), gain new strategic positioning (Porter 1996), move up the value chain (Kanapathi 2003) and enhance their management practices (Norton 2007; Chew 2007).

The new economy phenomenon or the knowledge / digital economy is changing the way of doing business. One clear change is in global trade connections and in doing business through the Internet as this enables the customer to directly connect and communicate with the supplier or manufacturer (Woo 2002). The Internet in a sense eliminates the middleman’s role. Malaysian SMEs, the intermediary suppliers to transnational companies (TNCs) in the old economy, have to effectively compete in the emerging new economy phenomena (Woo 2002) or face the risk of being replaced as vendors (Kanapathi 2003).

Export orientated manufacturing SMEs should also accept the notion that they have an obligation to society. Consumers and investors in many countries are making it clear that „corporations should meet the same high standards of social and environmental care, no matter where they operate“ (Hohnen, 2007, p.8). Malaysian SMEs targeting entry into new export markets, particularly in the developed world, must therefore take account of CSR issues and regard them „as a source of opportunity, innovation and competitive advantage“ (Porter & Kramer, 2006, p.1).

The Malaysian Government has a range of measures and incentives to assist SMEs to overcome the emerging challenges. However, apart from the IMP3, the 9MP, the SME Annual Report 2006, the Bank Negara”s Annual Report 2007 and the 2008 Budget Speech, much of the literature on Malaysian SMEs is dated.

There is also limited research on the factors that Malaysian SMEs must address to become internationalised. Furthermore, the effectiveness of the Government’s SMEs support policies and programmes has not been comprehensively investigated.

This study was therefore justified for the cited reasons. Additionally, the findings should provide useful contributions to policy and practice.
1.3.1 Justification and Research Contributions

As stated in Section 1.3, global trade liberalisation is creating new challenges for export orientated Malaysian manufacturing SMEs. The literature review, detailed in Chapter 2, revealed that this situation requires SMEs to reshape their businesses and products to achieve target growth and profit. The literature also listed other distinct advantages for SMEs to internationalise their operations (Mintzberg 1979, Johanson & Vahlne 1997; Yip 1989). Among them, to take advantage of the global market-place as it provides a larger base for goods and services (Kotler 1997).

The Malaysian Government has a comprehensive policy package to assist the SMEs with their capacity building efforts in order to improve their international competitiveness (IMP3 2006). Despite the significance of this issue, there was a paucity of information on the critical factors that determine the successful internationalisation of Malaysian SMEs. This justified the need for this research. This was reinforced by the following research findings, detailed in Chapter 5, which contribute to the existing body of knowledge:

i) The increased pace of trade liberalisation compels SMEs to formulate appropriate internationalisation strategies for taking advantage of the opportunities and fending of the challenges that emerge from a globalising world. The research findings will enable SME owners to secure a better understanding of the need to internationalise for maintaining their global competitiveness.

ii) Increasingly, international consumers and investors are stressing that all firms must give emphasis to CSR practices. There is limited prior research on the attitudes of Malaysian SMEs to CSR practices and the extent to which they are engaged in socially responsible behaviour. The research findings should extend the scholarship in this area.

iii) The final contribution relates to the adequacy of Government support policies. There was little secondary data on the perspectives of the target recipients on the effectiveness of the programmes for SMEs. The findings of the research indicate a
need for the Government to review existing policies and the delivery mechanisms for providing more effective support to all Malaysian manufacturing SMEs.

1.3.2 Unit of Analysis

The unit of analysis refers to „the level of aggregation of the data collected during the subsequent data analysis stage”. Furthermore, „the research objectives determine the unit of analysis” (Cavana, Delahaye & Sekaran, 2001, p.119). Guided by the research problem and the objectives set for the proposed research, the unit of analysis for this research comprised the export orientated manufacturing SMEs located in the Federal Territory of Kuala Lumpur and the states of Selangor and Negeri Sembilan. The researcher recognised that this could be a limitation but was constrained in expanding the geographical coverage because of limited time and financial resources.

1.4 Research Methodology And Design

This Section introduces the methodology for the research which is detailed in Chapter 3. As with every other scientific discipline, the conduct of this research was guided by a research perspective or paradigm. Guba and Lincoln (1994) asserted that the paradigm issues are crucial and no researcher should commence an inquiry without being clear about what paradigm informs and guides his or her approach.

The first step therefore was to assess the suitability of the three principal research paradigms - the quantitative paradigm, qualitative paradigm and the critical theory paradigm - for this research. The selection process took account of the:

i) Ontological and epistemological positions of the researcher (McMurray 2007).

ii) Research problems being a „how and why” problems that relate to complex issues about which little are known (Yin 1994).

iii) Strengths and weaknesses of each paradigm.
The outcome was a combination of qualitative and quantitative research methods in order to provide a more complete picture of the issues being addressed (Steckler et al. 1992). The research comprised two stages:

- The first stage was exploratory and qualitative in nature. This was to determine the specific research problem (Zikmund 2000).

- The second stage was descriptive and quantitative in nature. This permitted the generalisability of the findings (Perry 2002).

1.4.1 Primary Data Collection Techniques

Systematic data collection instruments were developed to collect the primary data required for the testing of the four research propositions developed from the literature review. As detailed in Chapter 3, data was collected from three sources:

i) An expert panel comprising seven persons drawn from the Government agencies, academia, the industry associations and SMEs. Their views were obtained through personal interviews on the key research issues.

ii) A focus group meeting with seven participants. They were drawn from the Government, the manufacturing SMEs, the MNCs, academia and representatives of the manufacturing industry.

iii) A questionnaire survey involving 62 participants using structured questionnaires. A five-point Likert rating scale was used to measure the attitude responses to the survey questions. This technique allowed respondents to express the intensity of their feelings on each of the statements that they were required to respond to (Churchill 1997).

The combination of these data collection techniques provided for the triangulation of the research findings. Accordingly, they served to improve the trustworthiness of the research.
1.4.2 Data Analysis

The data analysis, detailed in Chapter 4, relied heavily on the procedures proposed by Patton (1990), Yin (1994) and Miles and Huberman (1994). The qualitative data analysis activities commenced with the making of summaries of the interviews and the focus group meeting. Through the use of coding, a large amount of collected textual was reduced to make data analysis more manageable. Content analysis was used for the data which emerged from the open-ended questions in the interviews.

For the quantitative part of the research, the collated and tabulated data were analysed through the use of the Statistical Package for Social Science (SPSS). The findings, displayed by way of tables and graphs in Chapter 4, permitted the drawing of conclusions. They also formed the basis for offering recommendations on new policies, generating new theory and further research. They are set out in Chapter 5.

1.4.3 Enhancing the Trustworthiness of the Study

Good research must be free of bias and trustworthy. Measures were taken to improve the trustworthiness of the findings by addressing issues related to internal validity, external validity, reliability and objectivity (Lincoln & Guba 1985; Healy & Perry 2000; Neuman 2006). In line with Merriam (1998) and Miles and Huberman (1994), these included the use of triangulation in data collection and pattern matching in the data analysis stage. These are detailed in Chapter 3.

1.4.4 Ethical Issues

„In research, there are three concerned parties: the researcher, the sponsoring client and the respondent. The interaction of each of these three parties identifies a series of ethical questions” (Zikmund, 2000, p. 72).

The approval of the Ethics Committee of Southern Cross University (SCU) (ECN-08-017) was obtained before the start of the primary data collection process. The steps taken to meet ethical requirements are detailed in Chapter 3.
1.5 Structure of the Thesis

Guided by Perry (2001), this thesis adopts a structured approach and is organised into five chapters as shown in Table 1.2. It relied on the Style Manual for Authors, Editors and Printers (2002) on referencing and style issues.

Chapter 1: This initial Chapter provides the background for the research and sets the study framework. It justifies the conduct of the study, describes the research problem and identifies the research questions. It outlines the methodologies for the collection and analysis of the secondary and primary data. Finally, the Chapter lists the key definitions and the limitations of scope. The remainder of the thesis is organised as follows.

Table 1.2 The Five Chapters of this Thesis

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<td>Methodology Justification</td>
<td>Findings</td>
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Chapter 2: This Chapter commences with the development of the Concept Map to guide the review. The review is divided into two parts. The first is on the literature relating to the parent disciplines of internationalisation, entrepreneurship and CSR. The second part focuses on the three immediate disciplines, namely, i) Government policies, ii) the preparedness of Malaysian manufacturing SMEs for internationalisation and iii) CSR
practices in Malaysia. The gaps in the existing body of literature are then identified. These formed the basis for reaffirming the relevance of the research problem, the identification of the research questions and the crafting of the research propositions.

Chapter 3: This Chapter presents the research methodology and design including the choice of the preferred paradigm. It then explains the data collection techniques and the procedures used for the selection of the participants in the expert panel, the focus group and the questionnaire survey. The measures taken to make the findings more valid and reliable are also detailed. Finally, the Chapter presents the safeguards taken to address ethical concerns.

Chapter 4: This Chapter analyses the collected primary data in respect of each of the four research propositions. The analysis takes full account of the views expressed by the expert panel, the focus group meeting and the responses that emerged from the sample survey. A Section is also devoted to the unplanned data that emerged from the expert panel and the focus group meeting.

Chapter 5: This final Chapter provides conclusions for the research propositions and the research problem. Based on the findings, an amended international entrepreneurship model was developed. They also led to recommendations for consideration by policy planners and corporate strategists. The Chapter concludes with suggestions for further research and a listing of the limitations that emerged during the course of the research.

1.5.1 Limitations

This research was limited in three respects. First, cost constraints made it necessary to only interview a seven member expert panel and to conduct only one focus group meeting. Furthermore, all the participants of the expert panel, the focus group and the survey were located in the Federal Territory of Kuala Lumpur and the States of Selangor and Negeri Sembilan. Therefore, the findings of the study may not be generalisable across the country. Second, the study was largely qualitative in nature. As such, the findings may be subjective. Finally, due to time and cost constraints, it was necessary to use a relatively
small survey sample. The researcher acknowledges that this may also limit the replication
of the study and the wider application of the findings.

1.5.2 Definitions of Key Terms

The definitions of the key terms are given below.

Branding
Branding can be defined as „a name, term, sign, symbol or a combination of them,
intended to identify the goods or services of one seller or a group of sellers and
differentiate them from those of competitors“ (Kotler & Keller, 2006, p. 256).

Corporate Social Responsibility (CSR)
Bursa Malaysia (BM, 2006, p. 1) defined CSR as „integrating into our business operations
open and transparent business practices, based on ethical values and respect for employees,
communities and the environment“.

Entrepreneurship
Robins et al., 2000 (p. 298) defined
„entrepreneurship as undertaking a venture, pursuing opportunities, fulfilling needs and
wants through innovation, and starting business. Entrepreneurs are individuals who fill
this role. When we describe entrepreneurs, we use adjectives like bold, innovative,
venturesome, and risk-taking. We also tend to associate entrepreneurs with small
business.“

Globalisation
Globalisation can be defined as „the flow of technology, economy, knowledge, people,
values and ideas across borders“ (Knight, 1997, p. 6).

Internationalisation
This is defined by Johanson and Vahlne (1990, p. 20) as „the process of developing
networks of business relationships in other countries through extension, penetration and
integration.“
Manufacturing Small and Medium Enterprises (SMEs)
These can be defined as „companies with no more than 150 employees or with an annual sales turnover not exceeding RM25 million” (Department of Statistics, 2006).

Sustainable Competitive Advantage (SCA)
SCA is defined as „an attractive number of buyers prefer its products or services over the offerings of competitors and when the basis for this preference is durable” (Thompson, Strickland & Gamble, 2007, p. 6).

1.6 Conclusion

This Chapter introduced the research problem, the research questions, the unit of analysis and provided the justification for the research. These were on the grounds that the findings extend the existing scholarship on the research topic as well as contribute to policy and strategy formulation by the Government and the Malaysian SMEs. It then outlined the research design and the data collection instruments for collecting the primary data required for this research. It also presented the measures taken for improving the trustworthiness of the research findings; addressing ethical issues and the structure of the thesis. Finally, the key terms were defined. The next Chapter details the literature review conducted for this research.
CHAPTER 2: LITERATURE REVIEW
CHAPTER 2 – LITERATURE REVIEW

2.1 Introduction

The earlier Chapter justified the need for a research study on the topic “What are the Critical Factors for the Successful Internationalisation of Malaysian Manufacturing SMEs?” Reviewing the accumulated knowledge about a problem area is an essential early step in the research process (Neuman 2006). This Chapter therefore reviews the pertinent literature on the research topic.

2.1.1 Purposes of this Review

A literature review enables the investigator to identify how the pertinent research issues have been tackled in other situations (Cavana, Delahaye & Sekaran 2000). Guided by Perry (1995), Leedy (1993) and Baker (2000), this review has seven interrelated aims:

i) Rationalizing the significance of the research problem.
ii) Identifying key research issues and emergent themes.
iii) Placing the proposed study in the context of prior research undertaken.
iv) Identifying the main methodology and the research techniques that have been used.
v) Developing a theoretical framework for the study.
vi) Identifying gaps in the existing body of knowledge on the research problem.
vii) Developing the research questions and the research propositions for the research.

2.1.2 Concept Map and Chapter Structure

This research commenced with a preliminary literature search to identify the key research issues. A Concept Map, reflecting their linkages, was developed to guide the review and this is shown in Figure 2.1. It sets out the relationship between the background and focus theories (Philips & Pugh 1987) or the parent and the immediate disciplines (University of Oregon 1998).
Internationalisation, entrepreneurship and CSR are the three parent disciplines for this research. There are three immediate disciplines, namely, the Malaysian Government Policies, Entrepreneurship Traits and CSR Practices in Malaysia. The research questions are developed based on the gaps in the literature, leading to the formulation of research propositions. The concept map visualises the interconnections between these disciplines, providing a structured framework for the study.
policy framework, preparedness of Malaysian manufacturing SMEs for internationalisation and their adoption of international CSR practices to meet the demands of international customers and investors.

### 2.1.3 Chapter Structure

Based on the Concept Map, this Chapter has ten Sections, as set out in Figure 2.2. It starts with a discussion of the Malaysian economy to provide the contextual setting for this review.

Section 2.2 examines the scholarship on the term *internationalisation*, in order to identify „prior theory” in line with Perry (2002, p. 20). These include the stage theories and the linkages with strategic management and international entrepreneurship.

Section 2.3 focuses on the parent discipline of entrepreneurship. It reviews the roles of entrepreneurs and their traits in the context of the internationalisation of manufacturing SMEs.

The preliminary literature review identified CSR as a significant emerging challenge for internationalising Malaysian SMEs. Section 2.4 examines the linkages between CSR and reputational advantage as sources of SCA.

The discussion in Section 2.5 is on the immediate discipline of manufacturing SMEs in the Malaysian economy. It examines the impact of globalisation in the context of Malaysia’s participation in FTAs. This Section also reviews the challenges that internationalising SMEs face to stay abreast in a globalising world.

Section 2.6 reviews the literature on CSR practices in Malaysia. The discussion underlines the need for the SMEs to take full account of CSR issues in their internationalisation corporate strategies.

Section 2.7 assesses the global competitive advantage of Malaysian SMEs. Porter’s (1985) Five Forces Framework is used for this purpose.
Figure 2.2 Structure of Chapter 2

2.1 Introduction
Purpose, Concept Map, Country Context

2.2 Internationalisation
Theories and Models, Strategic Linkages

2.3 Entrepreneurs and Entrepreneurship
Traits, Characteristics, Internationalisation Attributes

2.4 Corporate Social Responsibility (CSR)
Justification, Practices, Strategies, Reputational Advantage

2.5 The Significance of SMEs in the Malaysian Economy
Globalisation, Challenges, Situational Analysis

2.6 Malaysian CSR Practices
GLCs, MNCs, SMEs

2.7 Global Competitive Advantage of Malaysian SMEs
Analysis

2.8 Government Policies
Policies, Programmes, Delivery, Adequacy

2.9 Model Development and Research Questions
Research Gaps, Propositions

2.10 Conclusion

Source: Developed from Figure 2.1.
Section 2.8 discusses the public policy support for SMEs and presents selected countries examples. These are Singapore, Vietnam and Thailand. It then outlines the Malaysian Government’s support policy framework for manufacturing SMEs, the delivery mechanisms and the adequacy of support programmes.

Section 2.9 analyses the findings of the literature review and suggests a theoretical framework for the study. It identifies the research gaps for developing the research questions and concludes with the crafting of the research propositions for testing by this research.

The final Section 2.10 sets out the conclusions for the Chapter.

2.1.4 The Country Context: the Malaysian Economy

This Sub-Section outlines the Malaysian economy to provide the contextual setting for the review.

2.1.4.1 National Development Goals

Malaysia, with a population of 27.2 million people in 2006, became an independent nation in 1957. From a humble beginning as a commodity producer, the economy has undergone significant structural changes. It now has a well diversified export sector and is ranked among the top 20 trading nations in the world. Recent available trade figures showed that the country’s trade breached the RM1 trillion level to reach RM1.07 trillion in 2006 (The New Straits Times 8 October 2007).

Through its Vision 2020 policies, Malaysia aims to become a developed country by 2020. As shown in Figure 2.3, the country’s priorities over the next 15 years are good governance, a vibrant and innovative Knowledge-Economy (K-Economy) and a values-based Knowledge-Society (K-Society) (9MP 2006). These are reaffirmed in the National Mission (2006 - 2020) which emphasises on the economy moving up the value chain through knowledge and innovation.
The 2008 Budget emphasised the need:

i) To enhance the nation’s competitiveness.

ii) To create a conducive private investment climate.

iii) To accelerate the nation’s economic growth.

iv) For CSR practices. The Budget stated that companies adopting CSR activities can secure business benefits as well as contribute to the community’s well-being.

As shown in Table 2.1, the economy registered Gross Domestic Product (GDP) growth of 6.0% in 2007. The manufacturing sector’s share of GDP grew by 3.1% in 2007. A dominant sector in the economy, it accounted for 28.8% of total employment in 2006 (EPU 2007).
Foreign direct investments (FDIs) are also driving Malaysia’s economic growth. TNCs from more than 40 countries have invested in over 3,000 companies in Malaysia (Asia Inc. October 2007). Ranked seventh in Asia as an investment destination (World Investment Report 2006), gross FDIs into Malaysia amounted to RM20.4 billion in 2006, as compared to RM14.2 billion in the previous year. This was the highest level of FDI inflows since the Asian Financial Crisis in 1997 (The Edge 22 October 2007). E&E products, machinery and equipment as well as metals and metal products, are targeted as the largest contributors to FDIs in the manufacturing sector (MOF Economic Report 2007).

### 2.1.5 Malaysia’s Manufacturing Export Trade Patterns

The secondary data for this Sub-Section emerged from several sources. The important ones were the Malaysia Trade Performance 2007 Report (MATRADE 2008) and the Bank Negara Malaysia Annual Report 2007 (BNM 2008).

Manufacturing exports amounted to RM452.5 billion. They accounted for 74.8% of Malaysia’s total exports in 2007 (Rafidah 2008). E&E accounted for 58.9% of

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#### Table 2.1 GDP Growth by Sector, 2006 - 2008

<table>
<thead>
<tr>
<th>SHARE OF GDP (%)</th>
<th>2006</th>
<th>2007(^1)</th>
<th>2008(^2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services</td>
<td>7.2</td>
<td>9.0</td>
<td>8.6</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>7.1</td>
<td>3.1</td>
<td>1.8</td>
</tr>
<tr>
<td>Agriculture</td>
<td>5.2</td>
<td>3.1</td>
<td>3.5</td>
</tr>
<tr>
<td>Mining</td>
<td>-0.4</td>
<td>3.3</td>
<td>3.5</td>
</tr>
<tr>
<td>Construction</td>
<td>-0.5</td>
<td>5.2</td>
<td>6.3</td>
</tr>
<tr>
<td>Less: Undistributed FISIM(^3)</td>
<td>3.4</td>
<td>7.4</td>
<td>6.9</td>
</tr>
<tr>
<td>Add: Import duties</td>
<td>-12.1</td>
<td>0.8</td>
<td>1.0</td>
</tr>
<tr>
<td>GDP</td>
<td>5.9</td>
<td>6.0</td>
<td>5.5-6.5</td>
</tr>
</tbody>
</table>

**Note:**  
1. Estimate  
2. Forecast  
3. Financial intermediate services indirectly measured (FISIM)  

**Source:** Department of Statistics (DOS), Ministry of Finance (MOF), Bank Negara Malaysia (BNM) (2008).
manufacturing exports, followed by chemical products (5.5%), machinery appliances and parts (3.6%), metal products (2.7%) and wood products (2.7%).

The exports of chemicals and chemical products expanded by 14.3% and were valued at RM33.25 billion in 2007. The principal export destinations were the People’s Republic of China (the PRC), Thailand, Singapore, Indonesia and Japan.

A strong export growth of 10.3% was also registered by machinery appliances and parts. The principal export items in this category were heating and cooling equipment, specialised machinery, pumps, compressors, fans and internal combustion piston engines.

The top five export destinations, by order of ranking, were Singapore, Thailand, the United States of America (the USA), Indonesia and the PRC.

### 2.1.5.1 Trade by Country

The USA is Malaysia’s largest trading partner. It accounted for 15.6% of Malaysia’s total exports in 2007, amounting to RM94.51 billion.

Malaysia’s second largest trading partner is Singapore. Exports to Singapore amounted to RM88.51 billion in 2007. E&E products with a value of RM41 billion contributed 46.5% of Malaysia’s total exports in 2007 to Singapore.

Malaysia’s third largest trading partner is Japan. The implementation of the Malaysia-Japan Economic Partnership Agreement, on 30 July 2006, resulted in increases in the exports of manufacturing products. These included jewellery, transport equipment and non-metallic mineral products, in particular, pottery, glass and glassware.

The PRC is Malaysia’s fourth largest trading partner, with total trade consistently registering double digit growth rates. Malaysia’s leading exports to the PRC included E&E products and intermediate goods.

Thailand, which shares a common border with Malaysia, is the country’s fifth largest trading partner. E&E products are Malaysia’s largest exports to Thailand, followed by
chemicals and chemical products. Other significant exports are machinery appliances and parts and metal products.

### 2.1.5.2 The Export Performance of the Manufacturing Sector

Manufacturing exports grew by only 0.3% in 2007 as compared to 10.1% in 2006. Largely due to the slowdown in the global economy, exports to the USA, Singapore, Hong Kong and Japan, registered declines (BNM 2008). Significantly, there was a reduction in the export of E&E products, which decreased by 5.2% in 2007.

Manufacturing exports to the USA were the hardest hit. The recessionary pressures in the USA resulted in manufacturing relocations and increased outsourcing to other low cost countries. Consequently, there was reduced overall demand for computers, computer parts and printed circuit boards (BNM 2008).

The literature indicated that the USA economy is in a recession. Consequently, growth in other developing economies including Japan and the European Union (EU) are likely to decelerate. There is also a strong possibility that the overheated PRC economy could result in the country experiencing a „hard landing” (Global Insight 2008).

In view of these negative external developments, Malaysia’s export growth is likely to weaken in 2008. Manufacturing exports are likely to be hardest hit due to the lower demands in the USA and Malaysia’s other leading trading partners.

### 2.1.6 Conclusion

This Section placed the research topic in the country context. It outlined the Malaysian economy including a listing of the National Development goals. It highlighted the importance of the manufacturing sector, FDIs and external trade patterns and links to maintain the country’s growth momentum. The next Section discusses the second parent discipline of internationalisation.
2.2 The Meaning of Internationalisation

The term internationalisation is now a very popular topic, in not only everyday but also in academic discourses (Fok 2007). Internationalisation is “a synonym for the geographical expansion of the economic activities over a national country’s border” (Ruzzier, Hisrich & Antoncic, 2006, p. 477). Assuming that SMEs operate in their natural context, Johanson and Vahlne (1990, p. 20) offer a wider definition by referring to it as “the process of developing networks of business relationships in other countries through extension, penetration and integration.” Selected definitions of internationalisation are shown in Table 2.2.

Table 2.2 Selected Definitions of Internationalisation

<table>
<thead>
<tr>
<th>Authorities</th>
<th>Definition</th>
<th>Focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Welch and Luostarinen (1993)</td>
<td>The outward movement of a firm’s international operations</td>
<td>Process, firm’s operations</td>
</tr>
<tr>
<td>Calof and Beamish (1995)</td>
<td>The process of increasing involvement in international process</td>
<td>Process, firm’s operations</td>
</tr>
<tr>
<td>Johanson and Mattson (1993)</td>
<td>The process of adapting firms’ operations (strategy, structure, resources, etc) to the international environment</td>
<td>Process, firm’s operations</td>
</tr>
<tr>
<td>Ruzzier, Hisrich &amp; Antoncic (2006, p. 477)</td>
<td>„a synonym for the geographical expansion of the economic activities over a national country’s border“</td>
<td>Process, firm’s operations</td>
</tr>
<tr>
<td>Johanson and Vahlne (1990)</td>
<td>As developing networks of business relationships in other countries through extension, penetration and integration</td>
<td>Networks, relationship</td>
</tr>
<tr>
<td>Ahokangas (1998)</td>
<td>The process of mobilising, accumulating and developing stocks for international activities</td>
<td>Resources, process</td>
</tr>
</tbody>
</table>

Source: Adapted from Ruzzier, Hisrich and Antoncic (2006).
There are two fundamental elements in the internationalisation process. These are “international orientation” and “international commitment” (Lehtinen & Penttinen 1999). The latter refers to a firm’s general attitude towards internationalisation and is therefore an evaluative dimension. Reid (1981) cited in Ruzzier, Hisrich and Antoncic (2006), considered evaluative dimension as a measure of the perceived difference between foreign and home markets along economic, cultural, political and market strategic dimensions. The international orientation concept is basically associated with the requirements of the operation modes chosen and their size of international business.

2.2.1 Internationalisation and Globalisation

Some authorities contended that internationalisation is a response to globalisation (Knight 1997; Biddle 2002). However, the term internationalisation emerged in the 1920s, to explain the dominant organisational principle underpinning cross-border interactions between market economies (Ruzzier, Hisrich & Antoncic 2006). While the economic internationalisation process accelerated in the post-Second World War era, the phenomena of globalisation only began to emerge in the 1970s (Gjellerup 2000).

Globalisation can be defined as „the flow of technology, economy, knowledge, people, values and ideas across borders” (Knight, 1997, p. 6). This implies that globalisation is accelerating the creation of worldwide integrated competitive markets and its attendant challenges. Companies including SMEs therefore must respond to markets at an increasingly faster pace (Pleitner 2002).

Globalisation could also be:

i) Viewed as a qualitative extension of internationalisation (Gjellerup 2000), with internationalisation, being one of the ways a country responds to the impact of globalisation (Fok 2007).

ii) Conceived in terms of internationalisation (Scholte 2000).
Viewed in these perspectives, this researcher takes the view that the term *global* is another adjective to describe cross-border relations between countries with *globalisation*, in line with Knight (1997), designating a growth of international exchange and interdependence.

However, there are divergent views on this matter. Scott (1998) considered internationalisation and globalisation as two „radically different processes dialectically linked” (Scott, 1998, p. 108). Yang (2000a) viewed both terms as countervailing processes, with internationalisation having an Eastern origin. It included Confucianism in ancient PRC and was driven by the advancement of human knowledge based on the realisation of the bond of humanity. It was primarily about „cooperation, collaboration, caring and sharing”. By contrast, „globalisation stemmed from the West and is driven by the belief in a single global market” (Yang, 2000a, p. 83).

This researcher considers Yang’s (2000a) position on internationalisation appropriate for the Malaysian SMEs as they are largely owned by entrepreneurs of Chinese origin.

### 2.2.2 Selected Internationalisation Theories and Models

Research on internationalisation commenced in the late 1950s, with a focus on transnational companies (TNCs). Since this study concerns SMEs, the review confined itself to the pertinent theories and models that relate to them and these are examined below.

#### 2.2.2.1 Stage Models of Internationalisation

Much research on the stage models of internationalisation have been undertaken in the Nordic countries and are collectively referred to as the Uppsala school. The School advocates two primary stage models, namely, the Uppsala internationalisation model (U-Model) and the Innovation-related model (I-Model).

i) **Uppsala Internationalisation Model (U-Model)**

   This model or the stage theory, developed by Johanson and Vahlne (1990, 1997), implies that firms increase their international involvement in small incremental
steps within those foreign markets in which they currently operate. Benefiting from the accumulated knowledge in conducting international operations, they then move into new markets.

In the U-Model, shown in Figure 2.4, the foreign market commitment comprises the amount of resources committed and the degree of commitment. The former relates to the size of the investment needed for marketing, organisation and human resources. The latter refers to the alternative use or the opportunity costs of transferring the required resources to an alternative use.

**Figure 2.4 The Uppsala Model of Internationalisation**

![Diagram of the Uppsala Model](source: Johanson & Vahlne (1997)).

The U-Model has been researched extensively (Peng 2001; Chetty 1999). Although it has received much support, it has also been criticized (Reid 1981; Andersson 2000). A key counter argument is that many firms do not follow the traditional pattern of internationalisation proposed by stage theory. Furthermore, some firms have been international from their birth and have been called international new ventures (Madsen & Servais 1997).

**ii) Innovation Related Models (I-Model)**

Originating from the work of Rogers (1962, cited in Gankeam, Snuif & Zwart, 2000), authorities have subsequently offered variations of the I-Model. They focus exclusively on the export development process of SMEs. In these models, each subsequent stage of internationalisation is considered as an innovation for the firm. The number of stages varies considerably between models; ranging from three to six stages.
They, however, can be categorised into three generic stages, namely, the „pre-export stage“; the „initial export stage“ and the „advanced export“ stage. As these models are behaviourally oriented, individual learning and top management are treated as important factors for understanding a firm’s international behaviour (Andersson 2000).

2.2.2.2 Network Approaches to Internationalisation

Some researchers have used the network approach as a starting point to analyse a firm’s internationalisation. Johanson and Vahlne (1990) extended the U-Model by incorporating investments in networks that are new to the firm. They also emphasised the importance of penetration and integration. Penetration requires developing positions and increasing resource deployment in networks in which the firm already has positions. They viewed integration as the coordination of national networks. From this perspective, it can be argued that it is necessary for firms to internationalise through networking because other firms in their networks are doing so (Ruzzier, Hisrich & Antoncic 2006).

The network theory is relevant and appropriate as firms within a particular industrial system depend on each other because of their specialisation. Accordingly, certain industries are better suited for the networking or cluster approach and therefore better placed to be internationalised (Buckley & Ghauri 1993; Andersen 1993).

In their model, Johanson and Mattson (1993) identified four stages of internationalisation – the „early starter“, the „late starter“, the „lonely international“ and the „international among others“. According to their model, internationalisation requires firms to establish and develop positions with their partners in the foreign networks. The concerned firm starts by participating in a domestic network and then develops business relationships in networks in other countries (Ruzzier, Hisrich & Antoncic 2006).

In the network model, knowledge tends to be concentrated in one or two people in the firm who have close relationships with their counterparts in the network. Such social relationships are considered important for entrepreneurs and their business (Hoang & Antoncic 2003). Interpersonal relationships are also considered important in other
internationalisation issues, namely, foreign market selection and international market development (Andersen & Buvik 2002; Coviello & Munro 1995; Jaklic 1998).

Networks are useful for SMEs as they could use them to overcome problems of knowledge and technology as well as for obtaining finance and capital. SMEs in networks could also acquire and share knowledge on international markets in order to learn from one another and speed up export entry.

2.2.2.3 The Strategic Management Approach to Internationalisation

The strategic management approach to internationalisation is centred on the resource based view (RBV) (Porter 1985). Stemming originally from the theory of the growth of the firm, the RBV of strategic management approach is gaining emphasis (Ahokangas 1998). The objective is to develop a resource based theory of the firm, regardless of whether the firm is domestic, international or global (Foss & Eriksen 1995).

The RBV focuses on sustainable and unique, costly to copy, attributes of the firm as the main drivers of the performance and SCA needed for internationalisation (Porter 1985). A firm’s ability to attain and keep profitable market positions depends on its ability to gain and defend its competitive position, with regard to resources that are important to the firm (Conner 1991).

Unlike the other models, the RBV emphasises on the importance of intangible knowledge based resources for competitive advantage. Accordingly, the RBV stresses on both the ownership of the resources, as well as, the dynamic ability for the organisational learning required to develop new resources. This has led to a better understanding of internationalisation as one of the firm’s diversification strategies (Montgomery & Wernerfelt 1997).

Past research on the RBV of internationalisation include models based on resource development and the strategic internationalisation of small firms that combine the strategic and network perspectives of firms. Ahokangas (1998) maintained that SMEs are dependant on the developmental potential of key internal and external resources. As
shown in Figure 2.5, they could be in a firm orientated mode or in a network orientated mode.

Figure 2.5 **Modes of Resource Adjustment**

![Diagram showing Modes of Resource Adjustment]

The practical application of the model of resource adjustment is that over time, firms have the flexibility to adopt different internationalisation strategies with different activities. They could be firm or network oriented resource development strategies; alternatively, a combination of internal and external resources. In this regard, the RBV is similar to the network theory, as both acknowledge that the total resources of the firm comprises available internal as well as the external resources. External resources could be obtained through network relationships.

Furthermore, from the entrepreneurial perspective, networks of individuals and the tacit knowledge that they bring with them are seen as resources of the firm. Entrepreneurs can use networks to gain access to such resources and information for their entrepreneurial actions (Ruzzier, Hisrich & Antoncic 2006).

The RBV is useful for establishing a firm’s production facilities during the later stages of a firm’s internationalisation. However, it does not explain the process aspect of internationalisation. Some authorities argued that entrepreneurs are the key variables in
the SMEs’ internationalisation (Miesenbock 1988). However, in order to create more
value, entrepreneurial led SMEs must also act strategically. Accordingly, the researcher
adopts the position that an appropriate model should integrate entrepreneurial and strategic
thinking as discussed in the next Sub-Section.

2.2.2.4 An International Entrepreneurship Model

The forces of globalisation have increased competition. This has led to a new
phenomenon of international start-ups which challenge the early approaches to
internationalisation. More recent theories show the interface between entrepreneurship
and international business research (McDougall & Oviatt 2000b). They also emphasise on
the connectivity between CSR and strategic planning for creating new value propositions
for firms (Porter & Kramer 2006).

Of particular significance and relevance to this research is the international
entrepreneurship model. Developed by Antoncic & Hisrich (2000), the model as shown in
Figure 2.6, identifies the entrepreneur, the characteristics of the firm and the environment
conditions, as contributory factors to the internationalisation of the firms (Ruzzier, Hisrich
& Antoncic 2006). Accordingly, the next Section is devoted to a discussion on
entrepreneurs and entrepreneurship.

Figure 2.6 The International Entrepreneurship Model

Source: Adapted from Antoncic and Hisrich (2000).
2.3 Entrepreneurs and Entrepreneurship

Entrepreneurship is rated as the highest competency necessary in transforming SMEs to be competitive (Gasse 1997). The growth of enterprises and becoming competitive is primarily influenced by the entrepreneur who starts and runs the SMEs (Slvein & Covin, 1995).

Entrepreneurs therefore are the principal drivers for initiating SMEs. Robins et al. (2000, p. 298) defined entrepreneurship as

“,undertaking a venture, pursuing opportunities, fulfilling needs and wants through innovation, and starting business. Entrepreneurs are individuals who fill this role. When we describe entrepreneurs, we use adjectives like bold, innovative, venturesome, and risk-taking. We also tend to associate entrepreneurs with small business.”

Entrepreneurs identify a commercial opportunity, introduce market-acceptable products, and find ways to produce them with economically efficient production techniques. They act to expand the market for the products and identify sources of finance. These entrepreneurs, being individuals, exhibit the strengths of their individual characteristics. They also influence the type of enterprise and create a dynamic internal organisation to achieve the strategic vision (Facuente & Salas 1989).

2.3.1 Entrepreneurial Traits and Characteristics

A successful entrepreneur possesses specific traits or characteristics (Carland, Boulton & Carland 1984). In this context, the entrepreneur is characterised by traits, such as, the need for achievement, a high level of energy and a strong preference for being involved in innovative activities (Schollhammer & Kuriloff 1989). There is also a positive relationship between the need for achievements and the entrepreneur’s success (Javillionar & Peters 1973; Komives 1972).

Rangone (1999) suggested that entrepreneurs have individual specific resources that facilitate the recognition of new opportunities and the assembling of resources for the venture. Entrepreneurial knowledge, relationships, experience, skills, judgment and the
ability to coordinate resources could be considered as resources themselves. These resources are unique value propositions because they are not easy to initiate and other firms simply cannot create them (Alvarez & Busenitz 2001).

2.3.2 Entrepreneurs and Change Management

The global environment is characterised by constant change (Pleitner 2002). Firms must therefore be prepared to meet new changes in line with Alfred P. Sloan Jr’s notable comment that „No company ever stops changing…Each new generation must meet changes…The work of creating goes on” (Sloan Jr, 1963, cited in Grant (1998)).

Perceptive entrepreneurs must therefore understand the strengths and weaknesses of their SMEs. They should also recognise that the external environment continuously poses threats and opportunities to their competitiveness.

Accordingly and in line with the stages theory, as discussed earlier in Sub-Section 2.2.2.1, the entrepreneur has to adapt to the different stages of the life cycle of the SME. At the start-up stage, the entrepreneur focuses on being innovative and taking risks. As the SME evolves, grows and matures, the entrepreneur has to provide leadership to develop the organisation and adapt to change to meet the anticipated challenges. The changing environment substantiates the need for the entrepreneur to acquire change management skills to achieve sustainable competitive advantage (SCA) (Cohen 1980).

A key success factor in the growth process is an organisational structure which enables an entrepreneur to plan, intervene and change the management processes to identify and achieve objectives. An entrepreneur must therefore identify relevant business systems, competencies and processes for change (Kickul & Grundry 2002).

2.3.2.1 Entrepreneurs and Innovation

Schumpeter (1934) regarded innovation as the central component of competition and as an incentive for firms to attack established positions through new approaches to competing. Entrepreneurs who are successful attach importance to innovation, which should be the
heart of entrepreneurial activity (Hitt et al. 2001). Innovation and entrepreneurship are therefore closely linked. This was reinforced by Peter Drucker (1985) when he asserted that entrepreneurs use innovation as a specific tool to take advantage of change (Drucker 1985).

There is a difference between the terms *invention* and *innovation*. Schumpeter (1934), cited in Alvarez & Busenitz (2001) considered *invention* as the discovery of an opportunity and *innovation* as being the exploitation of the opportunity. International entrepreneurial success therefore is not just the discovery of a valuable innovation but also that the innovation is successfully introduced in global markets (Alvarez & Busenitz 2001).

### 2.3.3 Constraints to Implementing Change for Internationalisation

Managing and implementing change for internationalisation are often challenging to an entrepreneur. Resistance to change is a natural reaction for those who want to protect their own self-interest and self-determination (Robinson 2000).

Conner (1995) listed some reasons for resisting major changes. These included the lack of trust, the belief that change is not feasible, economic threats, high costs, fear of personal failure and threats to values and ideals. In mobilising an organisation to adapt to change, entrepreneurs must be inspired to mobilise and re-energise their enterprises to adapt and succeed in the changing business environment (Heifetz and Laurie 1998).

One of the earliest change process theories was Lewin’s Force-Field model (1951). As shown in Figure 2.7, the model divided the change process into three phases of „unfreezing”, „changing” and „re-freezing”.

![Figure 2.7 The Force-Field Model](source: Adapted from Lewin (1951).)
The first phase occurs when entrepreneurs realise that the old ways of doing things are no longer adequate and that change is necessary. In the second or „changing” phase, entrepreneurs look for new ways of doing things and then select new products or new markets as the best approach. In the final „re-freezing” phase, the new approach is implemented and becomes established. The model suggests that any attempt to move directly to the changing stage without the unfreezing phase is likely to face difficulties.

Building on the work of Lewin (1951), Gemini Consulting (1995) cited in Johnson & Scholes (1997) formulated a framework for planned strategic change. Viewing enterprises as living organisations with a mind, body, spirit and interaction with the environment, the framework indicates that business transformation occurs through a four dimensional or a four R’s process. As shown in Figure 2.8, these are „reframe”, „restructure”, „revitalise” and „renew”.

**Figure 2.8 Gemini’s Four R’s Transformation Process**

These four R’s described by Johnson and Schole (1997) are as follows:

- „Reframing” is associated with the „mind” of the organisation. Questioning the organisation’s purpose, it opens up new possibilities and challenges related to where the organisation prefers to go.
• „Restructuring” deals with the organisation’s „body” and provides for new strategic directions for the firm. This requires the redesign of the work process of the firm to add value.

• „Revitalising”. This is associated with the need for a good match between the organisation and its environment. One aim is to enable it to use existing capabilities in new or enhanced ways. Another is to change the rules of competition through technology in order to provide new bases for competition.

• „Renewal”. Dealing with the „spirit” of the organisation, it ensures that individuals acquire the required skills to move the firm forward. The overall aim is to develop the organisation, in particular its learning capacity to constantly adapt to changed circumstances.

2.3.4 Conclusion

Sections 2.2 and 2.3 reviewed the scholarship on internationalisation, globalisation and entrepreneurship that relate to SMEs. The theories reviewed included the U-Model, I-Model, network model and the strategic management approach to internationalisation. Their links with entrepreneurs and entrepreneurship are reflected in the international entrepreneurship model. This was considered to be most significant and appropriate for this research as it endeavoured to bring together the variables of relevance for the internationalisation of Malaysian manufacturing SMEs. The next Section discusses the parent discipline of CSR.

2.4 Corporate Social Responsibility (CSR)

Over the past three decades, there has been a radical change in the relationship between business and society. The key drivers of the change have been the globalisation of trade, the increased size and influences of companies, the repositioning of governments and the rise in the strategic importance of stakeholder relations, knowledge and brand reputation. The relationship between companies and society has moved on from paternalistic philanthropy to CSR (UNIDO Media Corner 2002).
“The concept of CSR proposes that a private corporation has responsibilities to society that extend beyond making a profit” (Wheelan & Hunger, 2004, p.37). This requires firms to balance their strategic actions to meet the interests of their shareholders against the duty of being good corporate citizens. Accordingly, management must take full account of how their decisions impact on the well-being of their employees, local communities, the environment and society (Thomas, Strickland & Gamble 2007). Viewed in this perspective, „companies have a duty to be good citizens and to do the right things” (Porter & Kramer, 2006, p. 3).

CSR involves the participation of three players. As shown in Figure 2.9, they are the government, the citizens and the corporations. Successful corporations require a healthy society with income to buy their products and services and to provide them with productive workforce. Good governance is required for the safe-guarding of their rights. A healthy society needs successful companies to provide employment, improve their standards of living and create wealth. Governments need corporations to create employment and provide the revenues for growth (Selvanthan 2007).

Figure 2.9 **CSR - The Interdependent Players**

The literature indicates that „generally, the more developed the country, the higher the incidence of policies in the area of CSR (OECD, 2005, p. 5). Other studies (Johansson & Larsson 2000; Aykut & Ratha 2004) suggest that TNCs from developing and transition economies have generally less experience with CSR than their Northern counterparts. This could be due to:
These TNCs being based in the developing countries where civil society is not permitted to freely voice opinions as compared to the TNCs in the developed world. Accordingly, such TNCs may not be subjected to the same public scrutiny as compared to their counterparts in the developed world (Smith 2003).

A significant number of the TNCs from developing countries being state-owned which raises potential issues related to corporate governance and transparency.

Other pertinent studies revealed that CSR is:

- A „Northern” phenomenon in terms of its language and strategy. However, a UNIDO study in 2002, found that „silent CSR is thriving in developing countries with a different name and a different approach” (UNIDO Media Corner 2002).

- Considered to be a „Western re-packaging of what Asian companies have been practicing for decades” and which companies do not want to publicise as the concerned companies tend to feel that talking about such CSR practices takes away the spontaneity and genuineness of their efforts (Mavro, 2006, p. 48).

2.4.1 The CSR Debate

The subject of CSR has stirred much global debate for almost five decades, stemming from the different schools of thought. Friedman (1963), Carroll (1979) and Porter and Kramer (2006) offer contrasting views on the relationship between firms and society.

A strong advocate of „laissez-faire”, Friedman took the position that a firm must operate with a minimum of government regulations. In line with the thinking associated with the theory of the firm, he maintained that a corporation must act solely on economic motives and that any deviation could, in the long-term, act against the very society that the firm is trying to assist.

While agreeing with Friedman that the prime responsibilities of a firm are to make profits and to meet its legal requirements, Carroll (1979) however argued that business managers
also have social responsibilities. These social responsibilities include both ethical and discretionary responsibilities. As shown in Figure 2.10, ethical responsibilities relate to what a firm „should do“ and discretionary responsibilities to what a firm „might do“.

Porter (2005) took the debate further stating that a firm questing for SCA must fully utilise its capabilities in supporting social causes. This should be done in a manner that would provide or create unique value propositions for its customers, and therefore improve its competitive context at the same time (Porter 2005).

![Figure 2.10 Responsibilities of Business](source)

2.4.1.1 The Preferred CSR Theoretical Approach For This Research

There is no universally accepted definition of CSR (World Investment Report 2006). The previous Sub-Section however highlighted two opposing schools of thoughts on the notion of CSR. At one end of the spectrum was the ‘laissez-faire’ non-interventionist school, led by Friedman (1963). The researcher is not supportive of this school as it is premised on a narrow and restrictive micro-economic approach. It disregards the key macro-economic considerations that impact on the government and the society within which a firm operates.

The arguments of the interventionist school, as reflected by Carroll (1979), are more persuasive as they acknowledge the need for ethical and discretionary practices. However, as presented, they appear to be underpinned by moral and philanthropy reasons. Acceptance of this argument could result in firms incurring additional costs without
additional product value to the consumers as it may erode the firms’ competitive advantage in the longer term.

The changing global and societal circumstances require governments, societies and corporations to work in partnership for a „win-win-win” situation. The researcher is therefore inclined to support the position of Porter and Kramer (2006) that CSR must be integrated more effectively into a firm’s core business operations and strategy for the following reasons that they gave:

i) The moral appeal does not generate dividends to its investors.

ii) The term environmental sustainability remains too vague for pragmatic corporate strategy.

iii) By attempting to satisfy all stakeholders, a corporation could cede primary control of its CSR agenda to outsiders.

iv) The reputation argument or using CSR as insurance in the event of a crisis is difficult to measure in terms of its benefits.

Porter and Kramer (2006) divided CSR into two categories namely i) responsive CSR, i.e. to be a good corporate citizen and ii) strategic CSR that requires a company to adopt strategies which go beyond best practice. This is shown in Table 2.3.

The cited authorities said that strategic CSR has the potential to unlock shared values and strengthen the company’s competitiveness by investing in socially responsible behaviour. Central to their argument is that any strategy must encompass a unique value proposition that a company can provide to its customers which cannot be matched by its competitors. Strategic CSR occurs when the company adds a social dimension to its value proposition by integrating social impact into its overall strategy.
Table 2.3 Corporate Involvement in Society: A Strategic Approach

<table>
<thead>
<tr>
<th>Generic Social Impacts</th>
<th>Value Chain Social Impacts</th>
<th>Social Dimensions of Competitive Context</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good citizenship</td>
<td>Mitigate harm from value chain activities</td>
<td>Strategic philanthropy that leverages capabilities to improve salient areas of competitive context</td>
</tr>
<tr>
<td>Responsive CSR</td>
<td>Transform value chain activities to benefit society while reinforcing strategy</td>
<td>Strategic CSR</td>
</tr>
</tbody>
</table>


2.4.2 The CSR, Reputational Advantage and SCA Link

The term image relates to a firm’s ability to directly manage impressions, while the term reputation is an intangible resource constituted by the perception of its relevant domestic and external stakeholders. Reputation is a function of credibility, trustworthiness, reliability and responsibility. A superior reputation can provide a reputational advantage which may result in pricing concessions, better morale, reduced risk, increased strategic flexibility, improved financial performance and enhanced marketing opportunities (Johansson & Larsson 2000).

Reputational advantage can therefore initiate positive effects on the market value of the firm. It is also a source of SCA and a contributory factor for the firm to be better positioned for internationalisation.

Some authorities equate reputational advantage with reputational capital (Fonbrun & Van 2003; Shi 2007). CSR activities are important components in building reputational capital for enhancing the firm’s competitive and financial performance. It follows therefore that CSR malpractices can cause serious damages to a firm’s CSR image and financial returns (Johansson & Larsson 2000).
This is borne out by the case of Nike, the sportswear MNC. The firm’s share value plummeted in 1996 following the disclosure that the firm used „sweat shop labour” in Vietnam (Johansson & Larsson 2000).

As shown in Figure 2.11, building reputational advantage requires the firm to establish strong relationships through network building with all its internal domestic and foreign partners. This must be matched by producing superior quality products, acting in a socially and environmentally responsible manner and a history of fulfilling their obligations to all stakeholders (Covin & Miles 2000).

**Figure 2.11 Building Reputational Advantage**

<table>
<thead>
<tr>
<th>CREDIBILITY</th>
<th>TRUSTWORTHINESS</th>
<th>RELIABILITY</th>
<th>RESPONSIBILITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>to investors, customers &amp; suppliers</td>
<td>to employees, customers &amp; community</td>
<td></td>
<td>Environmental, social &amp; financial</td>
</tr>
</tbody>
</table>

**SUPERIOR REPUTATIONAL ADVANTAGE**

1. Pricing concessions
2. Better morale
3. Reduced risks
4. Increased strategic flexibility
5. Enhanced financial performance
6. Enhanced marketing opportunities

Increase in Market Value → Sustainable Competitive Advantage

Source: Adapted from Covin & Miles (2000).

### 2.4.3 Global CSR Practices

CSR is now a concept that resonates in the USA, Western Europe, Canada, Japan and in several developing countries including Brazil, India, Malaysia, Singapore, Thailand and South Korea (Thomas, Strickland & Gamble 2007). Given its importance, the United Kingdom has a Minister for CSR.
However, a recent study (Chapple & Moon 2005) found that CSR practices, particularly in Asia, are not homogenous, due to the countries being in varying stages of development. The study findings also revealed that globalisation accelerates the adoption of CSR practices in Asia. Furthermore, MNCs are more likely to adopt socially responsible practices than those operating in their home countries.

Firms that strive to be socially responsible can do so in a number of ways as shown in Figure 2.12 below.

![Figure 2.12 Common CSR Practices](image)

Source: Adapted from Thomson, Strickland & Gamble (2007).

*Ethical Principles and Strategies*

„Business ethics is the application of ethical principles and standards to business behaviours” (Post, Lawrence & Weber, 2002, p.103). Notions of what are right and wrong, moral or immoral, ethical or unethical can be categorised into two schools of scholarship. First, the school of „ethical universalism“ takes the view that some concepts of what is right and what is wrong are universal, in the sense that they transcend all cultures, societies and religions. The strength of the second school of „ethical relativism“
is that, what is ethical or unethical must be judged in the light of local customs, values and 
/ or cultures (Thomson, Strickland & Gamble 2007).

**Philanthropic and Charitable Activities**
A large number of companies fulfil their corporate citizenship and community obligations through actions to support charitable causes. These range from the Ronald McDonald House Programme, which provides a home away from home for the families of seriously ill children to the provision of drugs by pharmaceutical companies like GlaxoSmithKline for distribution in the least developed nations. Firms also tend to reinforce their philanthropic efforts by encouraging their employees to support charitable causes and participate in community affairs (Thomson, Strickland & Gamble 2007).

**Environmental Sustainability**
As implied by the term, sustainability emphasises on environmental and community stewardship. This emerged in the 1980s by the Norwegian Prime Minister Gro Harlem Brundtland during her Chairpersonship of the Brundtland Commission which led to the historic report „Our Common Future“ (The Report of the Brundtland Commission 1987).

The principle of sustainability often invokes the so-called „triple bottom line“ of economic, social and environmental performance. This requires firms to operate in ways to secure long-term economic performance by avoiding short-term actions that are socially detrimental or environmental wasteful (Porter & Kramer 2006).

**Employees Well-being**
A current focus of good CSR practices is improving the work environment for company employees. Other good employment practices are on-going training for future employability and special leave to take care of family members as well as work from home opportunities (Thomson, Strickland & Gamble 2007).

**Workforce Diversity**
Workforce diversity programmes now command emphasis in countries with a multi racial population. The success of firms, like Coca-Cola, is also dependant on getting people from around the world to become loyal consumers of the firm”s beverages regardless of race, religion, nationality, interests and talents (Thomson, Strickland & Gamble 2007).
2.4.4 CSR Practices by SMEs in Selected Countries

A study undertaken in Vietnam revealed a slow uptake on CSR practices by local enterprises. A lack of understanding about the potential business benefits of CSR resulted in most managers viewing CSR as impediments in the conduct of business in a highly competitive manner (Bekefi 2006).

A Canadian study (Princic 2003) found that several small businesses engage in a range of socially and environmental business practices, often without recognising that they are doing so. The findings revealed that the companies face common challenges when developing and implementing CSR initiatives, specifically:

- The perceived cost of implementing CSR activities is high, particularly in the primary resource and manufacturing sectors.

- Educating consumers on the impact of their purchasing decisions is difficult. This makes it less appealing for SMEs to shift their products / services to being more socially and environmentally responsible.

- Internal communications and training for employees on CSR practices are challenging for SMEs due to resource constraints.

2.4.5 Multilaterally Agreed CSR Principles

International organisations also play important roles for facilitating consensus building and promoting universally accepted principles that serve as guidelines for TNCs investing in other developing countries. At the international level, key initiatives have been taken to create a conducive environment for CSR practices and these include the:

- International Labour Organisation”s (ILO) Multinational Enterprises and Social Policy (MNE Declaration).

- OECD’s Guidelines for Multinational Enterprises (MNEs).
• United Nations’ Global Compact.

The ILO’s MNE Declaration
The Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy (MNE Declaration) is a non-binding universal instrument that articulates a set of Principles to guide the global operations of enterprises and their social policies. The Principles are intended to inspire good CSR practices by enterprises from both developing and developed countries (World Investment Report 2007).

The OECD’s Guidelines for MNEs
Originally adopted in 1976 and revised in 2000, these Guidelines are a comprehensive and detailed set of CSR instruments for developed and developing countries. The Guidelines, accepted by 39 governments, the 30 OECD member states as well as Argentina, Brazil, Chile, Estonia, Israel, Latvia, Lithuania, Romania and Slovenia, cover such broad areas such as human rights, supply chain management, labour relations, the environment, combating bribery, technology transfer, consumer welfare and taxation (OECD 2005).

The United Nations’ Global Compact
This is the world’s largest voluntary corporate citizenship initiative. Launched in 2000 by the United Nations Secretary General, it has 3,200 business participants and stakeholders from 94 countries. As shown in Table 2.4, the Compact has “Ten Principles” in the areas of human rights, labour standards, the environment, anti-corruption and benefits from political and social legitimacy virtually from anywhere in the world. Participants are expected to both internalise the Principles within the companies” strategies, policies and operations and undertake projects to advance the broader development goals of the United Nations (UN Global Compact 2002).

This initiative has experienced strong and growing engagement by companies in the developing world. These include Brazil, the PRC, Egypt, India, Indonesia, Mexico, Pakistan, South Africa and Turkey. However, the available literature is silent on the participation of Malaysian-based TNCs in the Global Compact.
This Section reviewed the on-going debate on CSR to underline its importance at the global and national levels. It examined the role of CSR in the strategic planning process, the link between CSR and reputational advantage for SCA, global corporate practices and the multilateral initiatives. The next Section discusses the immediate discipline of SMEs in the Malaysian economy.
2.5 The Significance of SMEs in the Malaysian Economy

This Section discusses the first immediate discipline; namely the role of SMEs in the Malaysian economy and their expected contribution towards achieving the country’s long-term objectives.

SMEs are the drivers for the economic development of APEC member countries (APEC 1997). In several developing countries, SMEs contribute approximately 65% of the total workforce (Hashim & Abdullah 2000). In South Korea, SMEs contributed about 50% of value-added while the contribution of Japanese SMEs was 55% (MIER 2007).

In Malaysia, the Government’s commitment to SMEs development has been clearly evident since the early 1970s. This was reflected in the New Economic Policy, introduced in 1971, which aimed to eradicate poverty and to restructure ethnic economic imbalances (Saleh & Ndubisi 2006).

In 2006, Malaysian SMEs accounted for 99% or 519,000 of the total establishments in the three main economic sectors of manufacturing, services and agriculture. In the same year, they employed 3 million workers or 65.1% of the total employment of 4.6 million engaged in the three sectors (UNDP 2007).

Malaysian SMEs accounted for 19% of Malaysia’s total exports in 2005 (National SME Development Blueprint 2006). However, their exports constituted only 25.6% of their output (The Edge 27 August 2007).

Despite their significance in the Malaysian economy, SMEs contributed only 32% of GDP as shown in Table 2.5. As the comparable figure in other regional economies, such as Thailand, Taiwan and Korea, exceeds 40%, this suggests that there is much potential for domestic SMEs to expand their role and increase their contributions to the Malaysian economy.
The National SME Development Council, chaired by the Prime Minister, provides strategic directions for accelerating SME development and their increased contribution to national growth (Zeti 2007). They are viewed in the context of macro performance targets, set out in Table 2.6, for strengthening the viability of SMEs across all sectors.

Significantly, the SMEs” contribution to GDP is targeted to increase from 32% in 2005 to 37% in 2010. Other notable target increases are the SMEs”:

Table 2.5 International SME Development and Growth

<table>
<thead>
<tr>
<th>Country</th>
<th>Measures used in the definition of SMEs</th>
<th>% of total establishments</th>
<th>% of total workforce</th>
<th>% of SME contribution to GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malaysia (2005)</td>
<td>Employment and sales</td>
<td>99.2</td>
<td>56.4</td>
<td>32.0</td>
</tr>
<tr>
<td>Japan (2004)</td>
<td>Employment and assets</td>
<td>99.7</td>
<td>71.0</td>
<td>55.3</td>
</tr>
<tr>
<td>Chinese Taipei (2005)</td>
<td>Employment, sales and capital</td>
<td>98.0</td>
<td>76.9</td>
<td>40.0</td>
</tr>
<tr>
<td>Korea (2003)</td>
<td>Employment and assets</td>
<td>99.8</td>
<td>86.5</td>
<td>49.4</td>
</tr>
<tr>
<td>Thailand (2002)</td>
<td>Employment and fixed assets</td>
<td>99.6</td>
<td>69.0</td>
<td>38.9</td>
</tr>
<tr>
<td>Singapore (2004)</td>
<td>Employment and fixed assets</td>
<td>90.0</td>
<td>45.0</td>
<td>25.0</td>
</tr>
<tr>
<td>Germany (2003)</td>
<td>Employment and sales</td>
<td>99.7</td>
<td>79.0</td>
<td>49.0</td>
</tr>
<tr>
<td>The PRC (2004)</td>
<td>Employment, sales and assets</td>
<td>99.0</td>
<td>75.0</td>
<td>56.0</td>
</tr>
<tr>
<td>Philippines (2003)</td>
<td>Employment and assets</td>
<td>99.6</td>
<td>70.0</td>
<td>32.0</td>
</tr>
</tbody>
</table>

Share of total exports from 19% in 2005 to 22% in 2010.

Contribution to total exports which is forecasted to emerge from the growth of the manufacturing sector. This is expected to be driven by E&E products increasing their share from 4% in 2005 to 6.4% in 2010.

Table 2.6 **Summary of Macro Performance Targets for Strengthening the Viability of Malaysian SMEs Across All Sectors**

<table>
<thead>
<tr>
<th>Macro Performance Targets</th>
<th>2005* (%)</th>
<th>2010 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SMEs’ contribution to GDP</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary Agriculture</td>
<td>3.9</td>
<td>4.3</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>8.4</td>
<td>9.6</td>
</tr>
<tr>
<td>Services</td>
<td>19.7</td>
<td>23.1</td>
</tr>
<tr>
<td></td>
<td>32</td>
<td>37</td>
</tr>
<tr>
<td>SMEs’ contribution to employment (excl. Govt.)</td>
<td>56.4</td>
<td>57.0</td>
</tr>
<tr>
<td>Primary Agriculture</td>
<td>8.1</td>
<td>6.9</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>14.5</td>
<td>15.1</td>
</tr>
<tr>
<td>Services</td>
<td>33.9</td>
<td>35.0</td>
</tr>
<tr>
<td></td>
<td>56.4</td>
<td>57.0</td>
</tr>
<tr>
<td>SMEs’ share of total exports</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary Agriculture</td>
<td>0.1</td>
<td>0.2</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>11.0</td>
<td>12.2</td>
</tr>
<tr>
<td>Services</td>
<td>7.9</td>
<td>9.2</td>
</tr>
<tr>
<td></td>
<td>19.0</td>
<td>22.0</td>
</tr>
<tr>
<td>Viable (Profitable) SMEs</td>
<td>&gt;90</td>
<td>&gt;90</td>
</tr>
</tbody>
</table>

* 2005 data estimated based on the Census 2005’s profiles and other relevant data.

Note: 1. Based on the Census 2005, total SMEs are 546,218.
   2. Services sector exclude the Government services.


2.5.1 **Manufacturing SMEs**

SMEs accounted for 96.5% or 39,436 of all enterprises in the manufacturing sector in 2005. The food and beverage (F&B) sector accounted for 32.32% of all SMEs, followed by 21.21% for chemical and chemical products, 15.6%, rubber and plastic products, 10.3% and fabricated metal products, 6.6% (SME Annual Report 2006).
In terms of geographical spread, the manufacturing SMEs are largely located in the industrialised West coast of Malaysia. The State of Johor has the largest concentration of manufacturing companies. They are in textiles and apparels and wood-based industries largely because of the availability of cheap labour and logging activities. SMEs in the State of Selangor are predominantly in the transport, equipment and the electrical sectors. Food and food-related manufacturing SMEs are concentrated in the States of Perak and Johor (Saleh & Ndubisi 2006).

Manufacturing SMEs are becoming more capital-intensive with fixed assets investments per employee registering a growth of 4% to reach RM35 792 in 2003. This contributed to value added per employee growing by 7.8% in the same year. The wood-based products and furniture sub-sectors, however, remained low in capital utilisation; a reflection of the labour-intensive nature of the industry. This was also the case in the labour dependant textiles and apparels sub-sector (Saleh & Ndubisi 2006).

2.5.2 Malaysian SMEs Internationalisation: Situational Analysis

In line with the stages theory, discussed in Sub-Section 2.2.2.1, Malaysian SMEs can be categorised by way of four development stages as shown in Figure 2.13. They are the „start-up” stage, the „growth” stage, the „expansion” stage and the „maturity or internationalised” stage (SMIDP 2002).

While the vast majority of SMEs are in the „start-up” and „growth” stages, the literature indicates that an increasing number are moving into the „expansion” stage (SMIDP 2002, UNCTAD 2005, 9MP 2006). Benefiting from their investments in technological upgrading and taking full advantage of ICT, they have moved up the value chain. Some have enhanced their international competitiveness by investing in brand development, strengthening their management capabilities and improving their distribution channels. Participating in the global supply chain as vendors to TNCs, they are developing new products and penetrating new global markets (Kanapathi 2003).
A small number are in the „maturity” or „internationalised” stage. Benefiting from design capabilities and own brand names, they are increasing their investments abroad. They have successfully penetrated overseas markets, either through direct exports, franchising or through investments abroad. These are examined below.

2.5.2.1 Franchising

Franchising, an aspect of the internationalisation of Malaysian SMEs, is still in its infancy. However, some 13% or 44 members of Malaysian Franchise Association have successfully
gone abroad with franchising rights in the PRC, India, Middle East and Sri Lanka (Razak 2007).

One example of a Malaysian SME with successful franchise operations is the Smart Reader Worldwide. Started in 1997, by a husband and wife team, and with support from a Government loan scheme, it now has 225 franchised centres nationwide and 135 franchised centres overseas including the Philippines, the PRC and the Middle East (SME Annual Report 2006).

2.5.2.2 Internationalisation through Overseas Investments

Several Malaysian SMEs have internationalised their operations by investing abroad, either on their own or through joint ventures. The „push” factors are the increasing competitive pressures, reduction of direct subsidies and the elimination of measures for infant industry protection in the domestic market. The „pull” factors are production cost reductions, risk diversification, double taxation avoidance, personal relationships, social connections and ethnicity (UNCTAD 2005).

The growing trend for internationalisation is reflected in the Ministry of International Trade and Industry (MITI) Annual Report (2005) which stated that Malaysia’s gross investment overseas in 2004 increased by almost three times to RM28.3 billion as compared to RM10.6 billion in 2003. The major investment destinations were Singapore (RM2.5 billion), Hong Kong (RM1.1 billion), Chad (RM1 billion), the USA (RM800 million) and Thailand (RM700 million).

The increase in Malaysian overseas investments has been facilitated by Government supported institutions. These include the:

i) Export-Import Bank of Malaysia Berhad (EXIM Bank) which provides financial and advisory services to Malaysians investing overseas.

ii) Malaysian South-South Association (MASSA) which promotes overseas investments by Malaysian companies through its investment arm, MASSCORP, which is a consortium of 85 Malaysian firms with overseas interests in energy,
construction, manufacturing, banking, transportation, telecommunications, health, education, tourism and related services.

2.5.2.3 Some Success Stories

Some Malaysian firms - which were SMEs at one point in time - are now in the „maturity” stage. Internationalised and globally competitive, they have honed their competitiveness both in domestic and international markets. Notable examples of Malaysian entrepreneurs at the helm of successful internationalised firms include:

i) The late Tan Sri S.M. Nasimuddin S.M. Amin who developed a small motor trading firm into the large NAZA Group involved with business, manufacturing and hospitality, both in Malaysia and abroad (The Star 2 May 2008).

ii) Robert Kuok who started as a distributor of sugar and rice in the early 1950s and who now controls vast worldwide interests in the plantation, tourism, sugar, steel and air freight industries.

iii) Ananda Krishnan who has major interests in the telecommunications, power, gaming, entertainment, oil and property sectors worldwide.

2.5.3 Malaysia’s Response to Globalisation

As discussed in Sub-Section 2.2.1, the term globalisation means „the flow of technology, economy, knowledge, people, values and ideas across borders” (Knight, 1997, p. 6). As a consequence, national and international considerations become more closely interwoven. Open economies, like Malaysia, have to re-orientate their outward posture in order to integrate with the global economy (Chen & Kwan 1997).

Globalisation forces are accelerating the trade liberalisation. Consequently, an increasing number of countries are participating in FTAs at the global, regional and bi-lateral levels. AFTA and the WTO agreements on GATS, TRIPS and TRIMS are already being
implemented (IMP3 2006). WTO membership requires countries to relax their trade and non-trade barriers to permit the freer flow of global trade.

### 2.5.4 Malaysia’s Participation in FTAs

Malaysia, ranked as the „19th most globalised nation’’ by the A.T. Kearney’s Globalisation Index 2006 (cited in AsiaInc. October 2007) has entered into several FTAs. These include:

- AFTA, with import duties on all products to be eliminated by 1 January 2010 for Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand and by 1 January 2015 for Cambodia, Lao PDR, Myanmar and Vietnam.

- The ASEAN Economic Community (AEC), to increase the free trade of goods, services and investment, freer flow of capital and greater mobility of professionals, talents and skilled labour by 2020.

- FTAs with the dialogue partners of ASEAN (the PRC, India, Japan, Republic of Korea, Australia and New Zealand). These comprehensive FTAs cover goods such as services, investments and other area of economic cooperation. Current timetables are for the FTAs with the PRC and Korea to be realised in 2010, Japan in 2012 and India in 2011. The timelines for other FTAs are being negotiated (IMP3 2006).

### 2.5.5 The Preparedness of Malaysian SMEs for Globalisation

The proliferation of bilateral, regional and multilateral FTAs is creating a more integrated global market. A more liberalised trading environment with new players and rivals threaten Malaysian SMEs operating in the domestic and external markets. The emerging situation could lead to hypercompetition which can be defined as
an environment characterised by intense and rapid competitive moves, in that competitors must move quickly advantages and erode the advantage of their rivals. This speeds up the dynamic strategic interactions among competitors.” (Grant, 1998, p. 72)

As this definition implies that competitive advantage is transitory, it follows that Malaysian enterprises should continuously generate new competitive advantage in order to neutralise their rivals’ competitive advantage. It is only by continually creating and renewing competitive advantage that firms can sustain market dominance and superior performance in both the export and domestic markets (Porter 1985).

There is much literature about the challenges facing Malaysian SMEs. These include the lack of financing, low productivity, human resource constraints, lack of managerial capability, limited information on potential markets, access to management and technology, heavy regulatory burdens and global competition (Wang 2003).

Consequently, Malaysian SMEs are prevented from moving ahead to a more favourable position to seize new marketing opportunities emerging from globalisation (Hall 2002; Wang 2003; Stuti 2005; Saleh & Ndubisi 2006). Ting (2004) argued that the survival of Malaysian SMEs was dependant on them increasing their competitiveness in a new, rapidly changing world of globalisation.

A survey involving 12 selected Asian countries, including Malaysia, on SMEs” competitiveness, found that 73% of respondents considered Chinese-owned SMEs to be more competitive than other SMEs in their own countries. The results also showed that innovation, access to market intelligence and access to capital are the biggest challenges facing SMEs across Asia (UPS 2005 cited in Saleh & Ndubisi 2006).

The preparedness of Malaysian SMEs for competing in a globalising world is viewed in the context of the key challenges that they face. These are shown in Figure 2.14 and then discussed.
2.5.5.1 A Strategic Global Outlook

Any company that aspires to industry leadership must have a global outlook (David 2005). Companies in industry that are already globally competitive or in the process of becoming so, are under pressure to formulate strategies for competing successfully in foreign markets (Thompson, Strickland & Gamble 2007). The global market-place means a larger base for goods and services; provided that participating firms can cope with a greater number of competitors (Kotler 1997). Developing and sustaining international linkages and trusts with the markets, customers and overseas suppliers help to increase exports and to gain a foothold in international production networks (Arora & Gambardella 2005).

“Malaysian SMEs must decide to become global players (Hasyudeen, 2007, p. A4). This was reinforced by Dato’’ Seri Rafidah Aziz, a former Malaysian Minister of International
Trade and Industry, who stated that „local companies need to broaden their horizons and start investing abroad” (The Oxford Business Group, 2007, p. 38).

A survey undertaken by The Edge (August 2007) found that apart from other external factors, an appropriate mindset is a major constraint for Malaysian SMEs. When asked about exporting their products, the critical responses were:

- „We’re just a small business.
- We’re too small to go international.
- We can’t even cope with local markets, how can we penetrate international markets?
- Let me be successful in Malaysia first. Only then will think about going abroad.”

The cited responses emphasised the importance of Malaysian SMEs adopting global mindsets to reap the new market opportunities emerging from globalisation. They must acquire international business skills, international orientation, environmental perceptions and management know-how.

The present economic landscape makes it necessary for SMEs to establish linkages with lead firms, in order to survive. They need to seriously look at establishing strategic tie-ups with TNCs or with regional firms to give them an international presence to become competitive (Wong 2007). This requires an understanding of different value systems, legal structures, fiscal issues, incurring risks and cultural and language differences (Norton 2007). It is important to master languages related to the global business world, in particular English, which is the language of world trade (Fong 1999). This was aptly summed up by Mok”s (2007) commentary that the „fast-leapers are those who speak more than two languages, embrace the just-do-it approach and simply excel with greater streetsmanship or be streetwise” (Mok, 2007, p. 53).

2.5.5.2 Competing in the New Economy Phenomena

The new economy phenomenon can be simply described as the ability to adapt new business processes and the influence of ICT in business transactions. The new economy, sometimes referred to as the knowledge economy or the digital economy, is changing the way of doing business (Kanapathi 2003).
The new economy has also been described as changing the business processes. One clear change is in global trade connections and in doing business through the Internet, which:

- Allows firms to share information, at an unprecedented rate, on the parties to a business transaction, the agreements reached and the date and time of the transactions (Woo 2002).

- Is a tool that aids doing business in the new economy (Porter 2001). This is borne out by the sharp growth in the volume of E-commerce, from USD137 billion in 1999 to an estimated USD1.3 trillion in 2003 (UNDP 2007).

- Provides inexpensive opportunities for SMEs to compete with their larger rivals (Shu & Jin 2007).

- Improves the abilities of SMEs to communicate with suppliers and customers.

In the new economy, a customer can switch suppliers easily and the competitors are not restricted or have a boundary. The Internet in a sense eliminates the middleman’s role. The customer directly connects and communicates with the supplier or manufacturer. SMEs were the middleman or intermediary supplier to a manufacturer in the old economy (Kanapathi 2003).

The changing situation requires them to emphasise on the Internet. They also need to develop websites which are sophisticated and integrate various functions including online purchasing, online sales and online payments (Woo 2002).

2.5.5.3 Management and Human Resource Constraints

Human resources are a source of competitive advantage. They are vital for a firm’s success and its ability to attract quality workforce categorised by intelligence, motivation, experience, creativity, commitment, analytical abilities and computer skills (Johansson & Larsson 2000). „About 80% of Malaysian SMEs are in need of capacity building” (Hashim, 2007, p. A2). In this regard, the owners of SMEs in particular the start-ups,
generally, have limited management skills, little formal education and little business experience related to their business (Hashim 1999).

SMEs require professional management structures which are nimble and robust. They must be able to research global markets, understand the competitive landscape and have a clear focus on what their customers need and how their products satisfy them (Fong 1999).

Equally important, to identify and manage risks, work with value adding partners and to demonstrate clear leadership and strength in the management team (Norton 2007). This is generally a shortcoming with family-owned SMEs which do not attach value to the adoption of modernistic professional management and quality training systems. SMEs are also generally unable to better utilise technologies as they experience shortages of technical and professional expertise due to their inability to attract and retain suitable talents (Fong 1999).

The fast-changing external environment compels most companies to reassess their strategic posture and competitive capabilities. These new tasks put pressure on existing organisational structures and management processes. Today’s global business managers must be able to sense and interpret the complex and dynamic environmental changes. They have to develop and integrate the multiple strategic capabilities in order to deliver results on a worldwide basis. SMEs can meet this challenge by hiring managers who are knowledgeable and able to respond to the major new global challenges that the company faces (David 2005).

2.5.5.4 Innovation

Global markets offer unlimited opportunities. To take advantage of them, Malaysian SMEs can dislodge their competitors by adopting innovative strategies. They have to produce successful products with significant improvements. SMEs should improve the quality of their products and services to a level that exceeds customers’ expectations and at lower costs than their rivals (Pralahad & Hamel 1980).

Innovation is therefore vital for the success of SMEs. Innovation means to break away from the established pattern (Chew 2006). To be innovative, an organisation should not
standardise outputs by focusing on control but should rather encourage creativity (Mintzberg 1979).

The term creativity should be differentiated from the „innovation” process. Majaro (1995, p. 165) differentiated the two by stating that „creativity is the thinking process which helps us to generate ideas” whereas innovation is the „application of such ideas towards doing better things and/or cheaper and/or more effectively and/or more aesthetically”. Creativity is therefore the critical commencement component of the innovation value chain as shown in Figure 2.15.

Figure 2.15 Creativity and Innovation

<table>
<thead>
<tr>
<th>Supply Push</th>
<th>Demand Pull</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creativity</td>
<td>Innovation</td>
</tr>
<tr>
<td>Creation – Research – Development - Commercialization</td>
<td></td>
</tr>
<tr>
<td>The Innovation Value Chain</td>
<td></td>
</tr>
</tbody>
</table>

- Supply of skilled workers
- Supply of creative employees
- Supply of ideas
- Demand from market
- Demand from population
- Demand from industry


In Malaysia, the National Survey of Innovation (NSI) is carried out on a bi-annual or tri-annual basis by the Ministry of Science, Technology and Innovation (MOSTI). In these surveys, two types of innovations are identified, namely, product innovation and process innovation. In a review of the third NSI survey covering the period 2000 – 2001, Lee (2005) found that:
The proportion of innovating small-sized firms is smaller than medium-sized firms.
The proportion of innovating medium-sized firms is smaller than large-sized firms.
The proportion of innovating SME-sized firms is smaller than large-sized firms.”

In 2005, Malaysia was ranked 60 in the Innovation Capacity Index of the United Nations Conference on Trade and Development (World Investment Report 2005). This Index, measures two critical dimensions, namely, (i) technology activity including R&D, USA Patents filed, scientific publications; and (ii) human capital as reflected by literacy rates, secondary and tertiary enrolments. The National Higher Education Action Plan (2007) recognised that more drastic actions must be taken to enhance national capacity to undertake R&D for innovation.

2.5.5.5 Branding and R&D

R&D is positively related to innovation and that the innovation activities of small and large firms respond differently to varying technological and economic environments (Lee 2005).

“SMEs are masters of technical know-how --- however they are weak in marketing” (The Edge, 2007, p. 2). Successful participation in the rapidly changing global economy also requires Malaysian manufacturing SMEs to craft new strategies to address their marketing weakness.

These include the development of own brand names for an international branding presence and effective branding strategies (Anholt 2005). While some Malaysian brands have emerged, other Asian brands are enjoying global success. Their branded goods continue to be in demand in the face of adverse competition (Forum 2008).

Brand promotion should be part of the marketing plan and corporate strategies. Brand development hinges on the R&D capabilities of the SMEs. This requires increasing their investments in hardware, software and employees’ education as well as participating in clustering and collaboration activities (IMP3 2006).
Firms require a good quality labour force to compete effectively in global markets. In Malaysia, the demand for information technology (IT) personnel far exceeds their supply and the gap is expected to widen over time (Chew 2006). The skill shortages are particularly acute for staff with knowledge and experience in systems development, engineering, operations management, training, marketing intelligence and R&D. The qualities of the technical specialist skills that emerge from the public education system are not entirely appropriate to the requirements of the industry (Fauzan 1997).

However, Malaysia is lagging behind in R&D. Chinese Taipei, for example, had 10,038 patents registered with the United States Patent and Trademark Office (USPTO) as compared to only 82 by Malaysia (Wattanapruttipaisan 2005).

Why are Malaysians lagging in innovation? It is possible that they are too impatient to innovate. It is also likely that they lack a research culture and view R&D activities as costing too much and taking too long to bring in good returns on their investment (Fong 1999). This could also be due to inadequate financial support from the Government. The third NSI survey revealed that out of a total of 263 firms that innovated, only 11 firms received some measure of financial support from the Government (Lee 2005).

**2.5.5.6 Technology Upgrading**

The rapid rate of technological change implies that for SMEs to compete globally, they must be able to keep pace with technological progress. Strong ICT capabilities are crucial since global companies are relying increasingly on Internet-based business-to-business (B2B) community portals to source intermediate inputs and services. Even if Malaysian SMEs are content to only serve the MNCs, they still need technology upgrading to keep pace with the changes occurring in the MNCs (UNDP 2007).

A 2006 Small and Medium Industries Development Corporation (SMIDEC) survey found that participants in SMIDEC’s programmes:

- Experienced substantive improvements in production and processes, operating costs and market development. Almost 50% of the respondents reported a 41% -
80% improvement in production processes with 6% achieving 81% - 100% improvement.

- Were slow in new product development. Only 38% reported an improvement level of up to 20% and a smaller 10% attaining 81% - 100% improvement (SME Annual Report 2006).

This could be due to the manufacturing SMEs being impeded by low levels of technological capabilities arising from low capital investment. This limits the development of new products and the upgrading of the existing product lines to supply high value products to achieve international competitiveness. Difficulties in securing financial assistance have been cited as a reason for the low levels of investment technology upgrading (Hall 2002; Wang 2003; Stuti 2003; Ting 2004).

2.5.5.7 Capital

Keeping up with technological advancements is vital for SMEs to enhance efficiency and productivity. SMEs should invest in new technology to remain globally competitive. Upgrading technical logical processes is an expensive upfront investment for SMEs and they experience difficulties in securing financial support (Wang 2003; Ting 2004; Salleh & Ndubisi 2006).

A Census of Establishments and Enterprises, conducted in 2005, identified financing as a key challenge for SMEs. Respondents indicated the need for financing for a range of activities in support of their internationalisation endeavours. They pinpointed the need for assistance in respect of:

- Improving and upgrading existing products, product design and processes.

- Advisory services, marketing, technology and ICT.

- Quality certification and management system improvements, market development and skill upgrading and acquisition of strategic technology.
Strategic brand development, identifying new international markets through market research, maximizing marketing communication and developing a market driven organisation.

Business start-ups, enhancing marketing skills, enhancing product packaging and the development and promotion of Halal products.

The Malaysian Government has introduced a range of financial support programmes to improve the access of SMEs to financing, as shown in Figure 2.16. However, the definition of SMEs with a RM25 million turnover as a limiting factor excludes the larger export oriented SMEs from obtaining Government support (Chua 2007). Furthermore, SMEs face difficulties in obtaining support from the banking sector and the Government. Those who are successful in obtaining loans from the banking sector tend to pay high interest rates (Salleh & Ndubisi 2006).

Figure 2.16 Financing to SMEs in 2006

<table>
<thead>
<tr>
<th>Banking institutions</th>
<th>5 Bank Negara Special Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2006</strong></td>
<td></td>
</tr>
<tr>
<td>RM39.6b loans approved to more than 84,000 SME accounts (2005: RM35.8b; 85,018 SME accounts)</td>
<td></td>
</tr>
<tr>
<td>RM04.6b loans outstanding or 44.5% of total business loans (2005: RM96b; 42.6%)</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Development Financial institutions</th>
<th>5 Bank Negara Special Funds</th>
</tr>
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<tbody>
<tr>
<td><strong>2006</strong></td>
<td></td>
</tr>
<tr>
<td>RM6.9b loans approved to more than 18,000 SME accounts (2005: RM2.3b; 5,222 SME accounts)</td>
<td></td>
</tr>
<tr>
<td>RM13.2b loans outstanding or 50.9% of total business loans (2005: RM12.0b; 50.2%)</td>
<td></td>
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<table>
<thead>
<tr>
<th>Small Debt Resolution Scheme</th>
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<tbody>
<tr>
<td>Since establishment, restructured non-performing loans (NPLs) of 242 SMEs amounting to RM267m</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Government Funds and Schemes</th>
</tr>
</thead>
<tbody>
<tr>
<td>91 funds with total allocation of RM16.3b</td>
</tr>
<tr>
<td>Since establishment, approved to more than 1.0 million SME accounts</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Credit Guarantee Corporation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guaranteed RM3.0b to 7,523 SMEs (2005: RM3.3b to 8,567 SME accounts)</td>
</tr>
</tbody>
</table>
2.5.5.8 Moving Up the Value Chain

Malaysian manufacturing SMEs are also vendors and suppliers to TNCs. However, they are generally limited to assembly and production activities. Being low cost suppliers of relatively unsophisticated components and parts, they may be forced to bear high risks, accept unequal bargaining power and being displaced should their TNC partners shift to a lower cost location due to increases in production costs (UNCTAD 2005). It is therefore necessary for them to benefit from an upward positioning in the value chain to take advantage of backward and forward linkages. They also have to develop capacities for undertaking activities ranging from R&D to marketing (IMP2 1996).

The Second Industrial Master Plan (IMP2) emphasised on a manufacturing ++ strategy, as shown in Figure 2.17, for manufacturing companies to move up the value chain. This strategy called for Malaysian manufacturers to develop forward and backward linkages. The latter requires them to emphasise on R&D in order to develop the capacity for innovation and branded products.

![Figure 2.17 Moving Up the Value Chain](image)

The former or the second “+” stresses on Malaysian manufacturers to market their products internationally rather than act as suppliers to intermediaries. The strategy therefore has two prongs, as shown in Figure 2.17.

First, for manufacturing industries to move beyond assembly and production activities into developing own technology and developing their own brands. Second, to inject higher value added into current and new industries.

2.5.5.9 Increasing Labour Productivity

Trade liberalisation is changing the patterns of international trade and the location of global production centres. The main challenge is to remain competitive in the light of strong growth from India and the PRC (9MP 2006). The relatively low cost and large skilled workforce in India and the PRC have made them the preferred destinations for foreign investment flows and the major producers and suppliers of manufactured goods.

Malaysia’s labour costs are double that of Thailand’s (Dhanani & Scholtes 2002). More recent data showed that staff costs of Malaysian medium-to-large enterprises (MLEs) rose by 74% as compared to the global average of 63% between 2006 and 2007. This was attributed to a tighter job market in an expanding economy (Starbiz, 12 April 2007, B7).

These threats to Malaysian SMEs require them to offset the rising labour costs. One approach is to transit to capital-intensive, high productivity and technologically superior operations for competing in the borderless market (IMP3 2006).

Over the period 2002 – 2005, SMEs continued to record increases in unit labour costs as shown in Table 2.7. The F&B, petroleum and basic metal industries registered improved labour costs. However, the gap between labour costs and value added is narrowing. This implies that the cost of labour is increasing somewhat faster than total factor productivity. Recognising this, the SME Annual Report 2006, identified several issues that must be addressed:

- Increased operational and cost efficiencies.
- Embracing new technologies and adopting ICT in their core manufacturing functions.

- Developing more skilled workers to meet the technological changes and higher market demand.

Table 2.7  **Labour Cost Competitiveness of SMEs**

![Graph showing Labour Cost vs Value Added from 2002 to 2006]


### 2.5.6 Conclusion

The discussions in this Section reaffirmed the economic significance of Malaysian manufacturing SMEs in the Malaysian economy and the challenges that they now face as a consequence of Malaysia’s participation in the WTO and regional and bilateral FTAs. These include the need for a strategic global outlook, ability to compete in the new economic phenomena, access to capital, technology upgrading, increasing investment in R&D, improving labour productivity and strengthening innovation capabilities. The next Section discusses the adoption of CSR practices by manufacturing SMEs.
2.6 Adapting CSR Practices

As discussed in Section 2.4, several developing countries including Malaysia are acknowledging the link between CSR and competitiveness. This is borne out by the comments by the Dato’ Sri Najib Tun Haji Abdul Razak, Deputy Prime Minister of Malaysia, that

„CSR helps improve financial performance, enhance brand image and increases the ability to attract and retain the best work force contributing to the market value of the company by up to 30 per cent…Finally from a national standpoint, a good reputation for CSR will help Malaysian companies compete in world markets by resolving the potential concerns end users may have in developed markets” (OECD, 2005, p. 12).

A number of factors contribute to the growing importance of CSR in Malaysia. First, supportive Government policies. The Prime Minister, in his 2006 Budget speech, stated that, „From now on, all PLCs (public-listed companies) are required to disclose their CSR activities” (Budget Speech 2006). In his speech at the subsequent 2008 Budget, he announced that all Malaysian PLCs would be required to specifically state in their Annual Reports, details of the staff recruited with breakdowns in terms of gender and ethnic diversity (Budget Speech 2008).

Second, as pointed out by Datuk Johan Raslan, Chairman of the Institute of Corporate Responsibility Malaysia, „it is part of Malaysian culture to help one another and the less fortunate” (The Star 3 September 2007). It could also be motivated by religious notions of certain business practices (Thompson & Zakaria 2004).

2.6.1 The CSR Framework of Bursa Malaysia

Bursa Malaysia, or the Malaysian Stock Exchange, is highlighting the importance of CSR practices. Defining CSR as „integrating into our business operations open and transparent business practices, based on ethical values and respect for employees, communities and the environment”, it has formulated a detailed framework for Malaysian PLCs (Bursa Malaysia, 2006, p. 1).
Designed to make Malaysian PLCs more socially responsible, they focus on four areas, namely the environment, the workplace, the community and the market-place.

2.6.2 The Silver Book

Malaysian Government-linked companies (GLCs) are those in which the Government has a significant stake. They account for approximately RM260 billion in market capitalization or approximately 36% and 49% of the market capitalisation of Bursa Malaysia and the benchmark Kuala Lumpur Composite Index respectively (Putrajaya 2005).

GLCs are selectively expanding their overseas operations. They recognise that success is dependant on their ability to contribute and act in a socially responsible manner in external markets (Putrajaya 2005).

The „Silver Book” launched in July 2005, is one of the five GLC Transformation initiatives. Detailing the guidelines for CSR practices, their monitoring, evaluation and measurement, the objectives of the Silver Book (2005, p. 2) are to:

- „Clarify expectations on the GLCs” contribution to society
- Guide the GLCs in evaluating their starting position in contributing to society
- Provide the GLCs with a comprehensive set of tools, methodologies and processes to proactively contribute to society in a responsible manner while still creating value for their shareholders”.

The other initiatives are the Blue Book, the Red Book, the Green Book and the Measures to Improve the Regulatory Environment. The connection between the Silver Book and these other GLC Transformation initiatives are shown in Table 2.8.
Table 2.8 The Silver Book and Other GLC Transformation Initiatives

<table>
<thead>
<tr>
<th>Other GLCT initiatives</th>
<th>Connection</th>
</tr>
</thead>
<tbody>
<tr>
<td>THE BLUE BOOK</td>
<td>The Silver Book acknowledges performance management as a key success factor for profitability. The Blue Book emphasises on the essential aspects of performance management.</td>
</tr>
<tr>
<td>Intensifying Performance Management</td>
<td></td>
</tr>
<tr>
<td>THE RED BOOK</td>
<td>The Red Book contains additional information that are specific to the procurement programme.</td>
</tr>
<tr>
<td>Procurement Guidelines and Best Practices</td>
<td></td>
</tr>
<tr>
<td>THE GREEN BOOK</td>
<td>Effective governance is clearly important in helping GLCs contribute to society in a value-enhancing way and this is detailed in the Green Book.</td>
</tr>
<tr>
<td>Enhancing Board Effectiveness</td>
<td></td>
</tr>
<tr>
<td>Improve Regulatory Environment</td>
<td>GLCs are encouraged to take the opportunity to shape the regulatory environment. The Silver Book highlights regulatory management as one of the levers to help GLCs contribute to society in a value-enhancing way.</td>
</tr>
</tbody>
</table>

Source: Adapted from the Putrajaya Committee on GLC High Performance (2005).

2.6.3 CSR Practices by MNCs and Other PLCs in Malaysia

The foreign MNCs in Malaysia can be divided into two sub-groups regarding the issue of CSR. The performance records indicate that the Japanese, the European and the American MNCs are more aware of the need to adhere to socially responsible behaviour. The other group, consisting largely of Asian home based MNCs, appears to be less sensitive on this issue. This could be due to the perception that any CSR activity will raise operating costs. It could also be due to the emphasis on short-term profits (Johansson & Larsson 2000).

Available company Annual Reports indicate that MNCs operating in Malaysia give emphasis to CSR practices. Ranging from philanthropy to the support or sponsorship of sports, notable examples include:

- Shell Malaysia, which offers scholarships, finances nature camps for students, staff and families. It provided grants of RM460,000 and RM1 million for the construction of the Danum Valley Education and Interpretation Centre and the Borneo, Sarawak Malaysia Foundation respectively.
• British American Tobacco, which provides scholarships and supports socially responsible farming.

• Volvo, which conducts both internal and external CSR activities. The former includes the supply of dialysis machines to hospitals and a special employment programme for deaf and mute persons.

• Ericsson, which implements an environmental programme including a loan system for local employees to buy air filtering systems to overcome the problem of heavy pollution.

A number of the larger Malaysian firms are also giving attention to CSR. These include the YTL Group, Royal Selangor, Maxis, ASTRO, the Kuok Group, Public Bank, Maybank, Petronas and the Genting Group. Much of the support provided is for scholarships, employees’ well-being, sponsorship of sporting activities and philanthropic donations.

### 2.6.3.1 Findings of Selected Studies on Malaysian CSR Practices

This Sub-Section reviews prior research on Malaysian CSR practices and presents their findings.

• Ghazali (2007) attempted to measure the extent of CSR disclosure in Annual Reports and the association between ownership structure and the extent of CSR disclosure. The findings revealed that i) companies in which Directors hold a higher proportion of equity shares or owner-managed companies disclosed significantly less CSR information, and ii) GLCs disclosed significantly more CSR information in their Annual Reports.

These suggest that the level of CSR disclosure in Annual Reports depends on the extent of public pressure faced by each company. The findings also raised the
question of whether corporate involvement in social activities should be made a mandatory requirement.

- The findings of another study revealed that companies with Malay Chief Executives demonstrated higher corporate social performance levels as compared to companies with Chinese Chief Executives and that the age of the Chief Executives is a significant predictor of CSR levels. However, the educational background did not appear to have an effect on the level of CSR practices (Ramasamy, Ng & Hung 2007).

- Baba and Hanefah (2001) found that for the period 1996 – 2000, Malaysian companies voluntarily included corporate social disclosure items in their Annual Reports. About 45 of them were found in the Chairman”s statement, occupying more than a page and giving information on human resources and community services. However, the extent of social disclosure practices by Malaysian banks and finance houses appeared to be low. There was also a positive relationship between the size of the firm and the amount of social disclosure (Hamid & Rahman 2000).

- One study revealed that out of the 10 managers interviewed, only two had a good argument about CSR and admitted that the concept was important for their firms. The remaining eight managers were either unaware of the concept or cited cost factors for not embracing CSR practices. The authors concluded that the concept of CSR is still misconstrued by the practicing companies in Malaysia (Amran, Devi & Zakaria n.d.).

- Another study, involving the social and environmental disclosures found in the Annual Reports of Malaysia”s 250 largest companies, revealed that CSR is still at an infancy stage in Malaysia. The authors attributed this to the lack of Government and public pressure, lack of perceived benefits and the widely held view that companies do not significantly impact on the environment (Thompson & Zakaria 2004).
2.6.4 CSR Practices by SMEs

Engagement in socially and environmentally responsible behaviour can potentially contribute to the success of individual SMEs. However, there is little literature on CSR practices by Malaysian SMEs. Does this imply that little attention is being given by Malaysian SMEs to CSR practices? If so, this could have serious repercussions, as demonstrated by the consumer backlash in the United States on “Made in China” products following the withdrawal of 14 million lead-painted toys made by MATTEL through sub-contracting arrangements in the PRC. The affected SMEs, included three from Malaysia that were involved in the sub-contracting arrangements.

Three important lessons can be learnt from the MATTEL issue and the earlier cited example of Nike in Sub-Section 2.4.2:

- Malaysia’s reputational advantage could be seriously eroded by negative international publicity emerging from the neglect of CSR practices.

- Even successful export orientated Malaysian SMEs can be caught off-guard by consumers on sensitive environmental issues which could result in negative perceptions about the firms.

- CSR has to be an important driver for risk reductions. Companies cannot afford to be seen or even perceived as doing anything to harm the environment and their customers.

The literature also indicates that in more developed markets, consumers’ perceptions on CSR issues like child labour, workplace diversity, gender balance and “green” products are becoming the major determinants of consumer demand (The Star 5 September 2007). This bears out the reality that consumers and investors in many countries are making it clear that “corporations should meet the same high standards of social and environmental care, no matter where they operate” (Hohnen, 2007, p. 8). Furthermore, CSR could create market access barriers for Malaysian SMEs seeking international partnership arrangements with TNCs.
A World Bank survey found that 80% of the TNCs surveyed considered the CSR performance of potential buyers before entering into a business relationship (World Bank 2003).

Internationalising Malaysian SMEs targeting for entry into new export markets, particularly in the developed world, must therefore take full account of CSR issues in their corporate strategies for internationalisation. Disregarding traditional notions and misconceptions, they should treat CSR as „a source of opportunity, innovation and competitive advantage” (Porter & Kramer, 2006, p. 1).

2.6.5 Conclusion

This Section reviewed Malaysian CSR policies and practices. The findings revealed that the Government, the GLCs and the TNCs, are giving increased attention to socially responsible behaviour. However, the limited literature available indicated that the manufacturing SMEs attach little priority to CSR practices. The next Section examines the global competitive advantage of Malaysia’s manufacturing SMEs.

2.7 Assessing the Global SCA of Malaysian Manufacturing SMEs

This Section assesses the global SCA of Malaysian SMEs which are embarking on internationalisation. „Industry analysis is useful for determining the competition faced by an industry” (Fahey & Randall, 1994, p.171). In any industry, Porter’s „5 competitive advantage forces dictate the competition” (Robbins & Muterji, 1994, p. 50).

The Five Forces framework has two dimensions. The horizontal dimension of the framework consists of i) the degree of rivalry, ii) the threat of entry, and iii) the threat of substitutes. The vertical dimension consists of the remaining two forces, described as cooperative as well as competitive in nature (Fahey & Randall, 1994, p.176). A diagrammatic representation of the Five Forces framework is shown in Figure 2.18.
2.7.1 The Degree of Rivalry

Malaysian firms have to contend with the forces of globalisation and the creation of the „borderless world” (Ohmae 1990). These forces are intensifying competition with the lowering or the removal of tariff and non-tariff barriers. Malaysian SMEs, with their rising labour costs, are being challenged by low wage rivals like India and the PRC. They are also losing ground to their rivals with superior production capabilities.

These countries which include Hong Kong, Taipei, the PRC, Singapore and South Korea are registering strong productivity gains emerging from the move up the value added
manufacturing chain. Furthermore, the majority of Malaysian SMEs are slow to innovate, to identify new markets and develop their own brands for price advantage and customer loyalty (Fong 1999).

The situation indicates that Malaysian SMEs are generally losing out to their competitors who are better placed to produce innovative products that exceed customers’ expectations and at lower costs.

2.7.2 Barriers to Entry

An industry’s profitability is influenced by potential as well as existing competitors. Entry barriers may take different forms. These include physical or legal impediments to entry or the required large scale investments to enter the market (Fahey & Randall 1994).

In Malaysia, several industries remain protected as they are viewed as infant industries and benefit from absolute advantage in the domestic market. As stated in the Third Malaysia Plan (3MP 1971-1975), licenses are also required for some types of business operations related to the requirements of the New Economic Policy (3MP 1971).

The situation is changing with the implementation of the WTO agreements including the GATS and the AFTA. The lowering or removal of protectionist measures is exposing Malaysian SMEs to new competitive pressures. They now have to contend with the entry of low cost producers from the region. They also face the prospect of being replaced as vendors and subcontractors to MNCs if they are unable to retain their competitive advantage (Kanapathi 2003).

2.7.3 The Threat of Substitutes

“The availability of substitutes can place a ceiling on prices for a company’s products; or make inroads into the market and so reduce its attractiveness” (Johnson & Scholes, 1997, p.113). A large number of Malaysian SMEs, at the lower end of the value add chain, are contract manufacturers or vendors to the MNCs. They produce products or components for which substitutes are readily available in neighbouring countries. These products are
highly price elastic in the economic sense. Malaysian SMEs therefore are not in a position to increase their prices even in situations of rising production costs, since MNCs may switch their source of suppliers. This is particularly so in the new economy where a customer can switch suppliers easily and the competitor is not restricted or does not have a boundary (Kanapathi 2003)

2.7.4 Buyer Power

Buyers with relatively more power than suppliers find themselves in the enviable position of being able to negotiate for lower prices or to demand more services. Both have a direct impact on profitability (Aaker 1998). The relative power of buyers would be greater where:

- The purchase size is a relatively large proportion of the suppliers’ business.

- Alternative suppliers are available or

- The buyer is able to make all or part of the products.

The components and parts made by Malaysian SMEs have high import content and are therefore subject to foreign exchange fluctuations and imported inflation. As their purchases are small in volume, they have little bargaining leverage and generally unable to secure price concessions. These make them „price takers“ and „not price makers“ (Selvanathan, 1999, p. 70).

2.7.5 Supplier Power

The high concentration of supplier power will have an effect on the prices if the suppliers sell to a variety of customers in diverse markets (Aaker 1998). The secondary focus of supplier power rests on the degree of differentiation in the inputs supplied (Fahey & Randall 1994).
The supplier power is the mirror of buyer power. The acid test of supplier power is whether suppliers are able to set prices that reflect the value of their inputs to the industry and not just their own production costs. The consideration of buyer and supplier power has to be balanced with the recognition that relationships between buyers and suppliers have important cooperative as well as competitive elements (Collins & Ghemawat 1994).

As discussed in Sub-Section 2.5.5.6, several Malaysian SMEs are still reliant on indigenous technology and yet to be fully automated. Their reluctance or inability to innovate and invest in R&D impedes them from adopting the new technologies required to develop differentiated branded products that command higher price premiums. Their limited reputational advantage also acts against them. These shortcomings force them to accept the design and prices set by the MNCs to avoid the risk of being replaced as suppliers by their regional competitors (Selvanathan 1999).

The Analysis

The analysis of the global competitive position of the Malaysian SMEs reveals that the intense competition from a globalising world is acting against Malaysian SMEs. They appear to be losing ground to their low wage regional rivals. Labour shortages and increasing production costs have not been matched with increases in total factor productivity. SMEs, being the lower end of the value added manufacturing chain have little buying or supplying power. Because of these negative factors, Malaysian SMEs do not appear to be well placed to take advantage of the new opportunities emerging from an expanding international trade arena.

The SMI Association of Malaysia recognises that its members must see beyond themselves. They have to adopt a resource sharing and cooperative working culture, especially to build a single brand, achieve economies of scale, cost savings and consequently, greater bargaining power (Peng 2007). The Association, as reported in The Edge, 2007, has urged members to master the art of leverage as an alternative to ride on the globalisation bandwagon by considering the 3Cs principle: Clustering, Collaboration and Consortium (Peng 2007).

- Clustering - as practiced by the Taiwanese and Japanese business associations where enterprises maintain relationships with clients and suppliers as well as with
public institutions and players from similar industries. The grouping and integration of Malaysian SMEs according to core competencies could contribute to increasing SMEs exports. Simultaneously, it encourages the performance-driven SMEs clusters to compete globally.

- Collaboration – to collaborate with the Government and leverage on the Government’s initiatives including risk reduction measures for assisting SMEs as they work to penetrate new markets.

- Consortium – to establish a “one-stop” supply and value chain trading house in new and high growth industries whereby all qualified SMEs could become shareholders.

2.7.6 Conclusion

This Section examined the global competitive advantage of SMEs using Porter’s (1979) five forces model. The findings revealed that the SMEs with limited buyer and supplier powers face new competitive threats from local cost rivals and those with superior production capabilities. The 3Cs principle of clustering, collaboration and consortium, is one of the remedies to address the emerging problems faced by Malaysian SMEs. The next Section examines public policy support for the internationalisation of SMEs.

2.8 Public Policy Support for the Internationalisation of SMEs

There is growing public policy support for the internationalisation of SMEs as a vehicle for export promotion (Jaffar 1990; Leong 1996; UNCTAD 2005). Venturing into international markets is a major decision for many SMEs. In both developed and developing countries, SMEs often require assistance and guidance from Governments for identifying export markets, seeking customers and promoting their goods and services overseas (Ahmed et al. 2002). The different stages of export growth require different degrees or levels of governmental assistance (Kotabe & Czinkota 1992).
There are several reasons why public policy makers should ensure that SMEs are assisted with finance, services and facilities to move into international markets (Seringhaus & Rosson 1991):

i) Growth in international trade exposes SMEs to increasing international competition in their domestic markets from imports and from foreign owned subsidiaries.

ii) At the same time, this opens opportunities for SMEs to sell their products and services in foreign markets.

iii) Increasingly, as industries become internationally competitive, SMEs that confine their activities to their domestic markets are likely to see their competitive advantages erode.

The internationalisation of SMEs features as a prominent component of the economic development strategy adopted by several developing countries. In Asia, the PRC and India, have recently liberalised their policy environment to encourage their enterprises to go abroad (UNCTAD 2005).

Vietnam, Thailand and Singapore are Malaysia’s regional trade rivals. The support extended by their Governments to the SMEs are considered relevant for this research and outlined below.

**2.8.1 Policy Support for SMEs in Singapore**

There were 148,000 SMEs in Singapore in 2007 as compared to 127,000 in 2003 (Choo 2008). Constituting 99% of all establishments and employing more than half the workforce, they contribute more than 40% to total GDP. Largely, manufacturers of finished products, they also provide support services and supply chain contributions to a diverse community of some 7,000 MNCs located in the country (Lim 2005). The findings of a SME Development Survey conducted in 2004, revealed that a third of the respondents identified international expansion as a key growth strategy. Choo (2008, p. 7) identified four main challenges that impact on the SMEs’ operating landscape:


- Intense competition due to globalisation and emergence of new markets.
- Limited professional and management talent pools.
- A limited domestic market made even smaller by competition from large corporations.
- Higher operating cost as compared to new and emerging markets like the PRC, Vietnam and India.

Due to these combined “push-pull” factors, the SMEs are emphasising on internationalisation. Some have gone beyond the conventional markets in ASEAN and the PRC. They have established new internationalisation frontiers by moving into new markets in Central Asia, Eastern Europe and Latin America.

The Government’s theme for SMEs is „Local Strengths, Global Success”. This clearly implies that in order to maximize its opportunities for international success, a company has to first develop its competencies domestically (Lim 2005). For this purpose, the Government’s policy framework encourages close collaboration between SMEs and their stakeholders as shown in Figure 2.19.

Several programmes have been developed by the Government to assist Singapore-based companies to build their internal capabilities and access critical resources. Three pertinent ones are the:

- Variable interest loan scheme (V-Loan).
- Business Care programme.
- Internationalisation Road-Mapping programme.

The V-Loan
This is designed to meet the financing needs of SMEs. It allows participating financial institutions to tailor the interest rates according to the risk profiles of the borrower. If the lender is reluctant to provide a loan to a SME at the prevailing interest rate, it can consider doing so at a slightly higher rate under the V-Loan. This flexibility facilitates access to financing for a larger segment of SMEs.
Business Care Programme
This programme encourages more business to transact online with the Government through the one-stop Government-to-Business portal. The portal brings together business-related content and services in one convenient site and companies can use the portal to conduct market research and apply for licenses through the Online Business Licensing Service (OBLS).

Internationalisation Road-mapping Programme
This programme provides grants to Singapore-based companies to engage business consultants to develop strategic internationalisation plans and support action plans or road-maps for successful implementation. The purpose is to help companies avoid common mistakes as they expand abroad such as:

- International expansion without a corresponding expansion in areas of business competency such as management talent, branding, design, IP management among others.
- Inadequate due diligence on the local competitive environment.
- Inadequate tailoring of operations/strategy for the local market.
- No systematic approach to internationalisation resulting in excess variations, lack of control and operational complexities.
2.8.2 Policy Support for SMEs in Thailand

In Thailand, SMEs are found in every sector of the economy and play a vital role in the whole economy. Accounting for 90% of all businesses, they are crucial for the fundamental long-term developmental goals of the economy. There were 152,815 manufacturing SMEs in 2002 (Department of Industrial Promotion 2002).

The country’s Ninth National Economic and Social Development Plan emphasise on promoting SMEs and set out policy guidelines to support a strategic SME Development Plan (ILO News 1999). The key objective of the strategy is for the sustainable growth of the SMEs on a knowledge-based basis. As shown in Figure 2.20, the Plan incorporates policies to increase productivity and innovation; create dynamic and knowledge-based SMEs; develop enabling factors for a favourable business environment and encourage good governance.

Policies are also in place for Thai SMEs to move up the value chain and forge linkages with larger enterprises in order to gain a foothold in international production networks (Dhanani & Scholtes 2002). There are also policies to assist SMEs to develop business plans, increase access to credit and extend overseas trade, industrial and investment linkages (Fam 2007).

Figure 2.20 Thailand’s SMEs Promotion Strategies, 2007 – 2011

In line with Porter (1990) that firms must do well in the domestic market before they can compete successfully in the international arena, the SME Development Plan also emphasises on SMEs increasing their competitiveness in the local market. A significant and innovative initiative is the One Tambun One Product (OTOP). The key objective, as shown in Figure 2.21, is to create SMEs „of excellence” at the Tambun or district levels. The supportive measures include Government procurement, creating public and private sector linkages with the larger enterprises (LEs) as well as franchise development.

![Figure 2.21 OTOP Strategies to Promote Local Market](source: Suwannagate (2008).)

### 2.8.3 Policy Support for SMEs in Vietnam

Vietnam is benefiting from rapid economic growth largely driven by private investments. This is reflected by the impressive expansion of the industrial sector. With growth of 10.6% in 2007, it was the main contributor to GDP. Manufacturing, the largest sub-sector of industry, grew by 12.8% during the same year (Asian Development Outlook 2008).

However, the manufacturing SMEs face major challenges in strengthening their human and institutional capabilities to take advantage of the emerging global trade and investment opportunities. The Government has introduced policy reforms and increased public investments in infrastructure to enhance domestic supply capacities. It is also building up
the trade and investment capacities of the SMEs as they are viewed as the stepping stone for robust market activity (APEC SME Ministerial Meeting 2006).

Enterprise development and the improvement of the business climate are highlighted in the SMEs Development Plan (2006-2010). The specific objectives include:

i) Increasing the number of newly established SMEs to reach 320,000 by the year 2010. This is based on an annual growth rate of 22%.

ii) Encouraging SMEs to become direct exporters.

iii) Creating about 2.7 million new jobs in SMEs over the five-year period (2006-2010) of which 165,000 will be technical positions.

In support of the Plan, the Government introduced a legal framework to provide for a transparent and stable business and investment environment for SMEs development. In this regard, the principal support actions for SMEs are to:

i) Simplify the regulations to facilitate business registration, market entry and business activities.

ii) Increase their access to land and work premises.

iii) Facilitate their access to finance, with priority for enterprises producing high value added export ready products.

iv) Support programs for improving the competitiveness of SMEs.

v) Develop a skilled labour force to meet the requirements of SME development for the period 2006 - 2010.

Another priority area is the timely implementation of the SME Development Plan 2006 – 2010. The SME Promotion Council provides overall co-ordination of the activities related to the implementation, monitoring and evaluation of the Plan. The Council is also
empowered to offer recommendations to the Prime Minister on remedial action when necessary. These are in respect of situations where the implementation of the Plan is lagging or when administrative bottlenecks occur (Government of Vietnam 2006).

### 2.8.4 The Malaysian Government’s Support For SMEs

Sub-Sections 2.8.1 – 2.8.3 highlighted the initiatives taken by the Governments of Singapore, Thailand and Vietnam to support their SMEs with their internationalisation efforts. The earlier Sections also presented the challenges confronting Malaysian SMEs in a trade liberalising world. The literature, largely Government publications, indicated that the 9MP and the IMP3 are aimed at enhancing the international competitiveness of the manufacturing sector. This was reflected in the statement by the Prime Minister, Dato” Seri Abdullah Haji Ahmad Badawi, for a „world class mentality” with matching intellectual professional and technical capabilities (The New Straits Times 17 April 2007).

The 9MP, the IMP3, the National SME Blueprint and the SME Annual Reports detailed the efforts to remove long standing policy constraints faced by SMEs. These were also reflected by the commentaries of leading Government figures as shown in Table 2.9.

<table>
<thead>
<tr>
<th>Name</th>
<th>Commentary</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dato” Seri Abdullah Haji Ahmad Badawi (2007)</td>
<td>„specific focus… will be given to enhance the penetration of the products and services of our SMEs in the global market…”</td>
<td>Prime Minister of Malaysia</td>
</tr>
<tr>
<td>Dato” Seri Rafidah Aziz (2007)</td>
<td>„…the successful transformation and growth of the economy requires the SMEs to …address the challenges of efficiency…”</td>
<td>then Minister of International Trade and Industry</td>
</tr>
<tr>
<td>Tan Sri Dato Seri Dr. Zeti Akthtar Aziz (2007)</td>
<td>„…our main priority is to ensure that SMEs have access to financing…”</td>
<td>Governor, Bank Negara Malaysia</td>
</tr>
<tr>
<td>Dato” Noharuddin Nordin (2007)</td>
<td>„… in today’s era of globalisation and liberalising market, entering new playing fields is necessary for some business” survival.”</td>
<td>Chief Executive Officer, MATRADE</td>
</tr>
<tr>
<td>Dato” Hafsa Hashim (2007)</td>
<td>„Malaysian SMEs are ready to do business across borders and compete with their counterparts globally.”</td>
<td>Chief Executive Officer, SMIDEC</td>
</tr>
</tbody>
</table>

Source: Adapted for this Research.
The 9MP incorporates specific policies for increasing outsourcing, inter-firm linkages, entrepreneurship programmes and knowledge skills (9MP 2006). The IMP3 sets out clear strategies for SMEs to:

i) Enhance their competitive edge by better leveraging their core competencies;

ii) Move into the international arena for greater export opportunities through better negotiation skills, merchandising, pricing and brand building; and

iii) Promote R&D for strengthening their technological capabilities.

The IMP3 identifies 13 knowledge-intensive industries with the potential and the competitive advantage for the further growth of SMEs. These included six in the manufacturing sector which have been targeted for support (Peng 2007).

### 2.8.5 SMEs Support Programmes

The National SME Blueprint for 2006 identified 246 programmes involving a commitment of RM3.9 billion. The 2007 Blueprint targeted an increase in the contribution of the SMEs to GDP from 32% in 2005 to 37% by 2010. Their share of total exports was also targeted to increase from 19% to 22% over the same period (SME Annual Report 2006).

As reflected in Table 2.10, a total of 189 key programmes were planned for SME development in 2007. They fall into three broad categories (Asokkumar 2006):

- **“Stimulatory”** which focuses on supporting entrepreneurship. The programmes for this include entrepreneurial education, identification of potential entrepreneurs and motivating entrepreneurs.

- **“Promotional”** support for entrepreneurs to establish and operate their enterprises efficiently.
• “Enhancement” activities which are aimed at moving SMEs up the value chain, producing high quality and high value added products for international markets.

Table 2.10 2007 SME Development Programmes

<table>
<thead>
<tr>
<th>Access to Financing</th>
<th>Entrepreneurs Development</th>
<th>Marketing and Promotion</th>
<th>Advisory Services</th>
<th>Infrastructure</th>
</tr>
</thead>
<tbody>
<tr>
<td>• New Entrepreneurs Fund 2</td>
<td>• Biotechnology entrepreneur</td>
<td>• Promotional programmes in hypermarkets</td>
<td>• SME business advisers network</td>
<td>• Product packaging, distribution &amp; agriculture marketing centres for agriculture and agro-based products</td>
</tr>
<tr>
<td>• Fund for SMIs 2</td>
<td>• Development programme</td>
<td>• Malaysia International Halal showcase</td>
<td></td>
<td>• Rural mini post office entrepreneurs development programme</td>
</tr>
<tr>
<td>• Small debt resolution scheme</td>
<td>• New franchise scheme for graduates &amp; women entrepreneurs</td>
<td></td>
<td>• Provision for business premises, factories, processing centres &amp; workshops for SMEs</td>
<td></td>
</tr>
<tr>
<td>• Securitisation of SME loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• SME Bank business loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• SMIDEX 2007 &amp; SME convention</td>
<td>• Entrepreneur support services programme</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• ICT SME development programme</td>
<td>• Contractor advisory services</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>• Retail training programme</td>
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<td></td>
<td></td>
<td>• Enterprise 50 Award programme</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>• Training programmes in financial management &amp; accounting</td>
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<td></td>
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<td></td>
</tr>
</tbody>
</table>

Food production credit scheme
Fund for food
ICT fund
Biotechnology Commercialisation Grant
Shariah-based financing facilities for special funds and new trade financing products


The SME Annual Report 2006 emphasised the need to improve access to financing. This was reflected by the targets for Bank Negara Malaysia and the development financial institutions to approve a total of RM51 billion loans to about 110,000 accounts. These were in addition to the 37,000 loans targeted for approval under the various Government schemes in 2007 and the loans provided by commercial banks (SME Annual Report 2006).
Is the Government’s allocation for SMEs adequate considering that they contribute to 19% of the country’s exports? It would appear that the allocation should be increased as borne out by the following statements which were reported in the New Straits Times on 3 April 2008:

- „I believe more funds are needed to develop SMEs” by Tan Sri Muhyiddin Yassin, Minister of International Trade and Industry.

- „Allocation for the SME Soft Loan Scheme under the 9MP is nearly exhausted and we are only in the third year” by Mohd. Najib Abdullah, Group Managing Director, Malaysian Industrial Development Finance Berhad.

### 2.8.6 Selected Pertinent SME Support Programmes

Four programmes relevant to this research merit elaboration.

First, the export promotion activities of the Malaysia External Trade Development Corporation (MATRADE) which is located in Kuala Lumpur. As stated in its website, [www.matrade.gov.my](http://www.matrade.gov.my), in January 2008, this Federal Government agency has four branch offices in Malaysia (Penang, Johor Baharu, Kota Kinabalu and Kuching) and three Malaysian Trade Centres (Dubai, Johannesburg and Rotterdam).

There are also 34 MATRADE offices worldwide. 17 of these are in Asia, seven in North and Latin America; another seven in Europe and three in Africa. Their functions ([www.matrade.gov.my](http://www.matrade.gov.my)) are to:

- Channel overseas trade enquiries to Malaysian businesses and assist Malaysian exporters doing business overseas.

- Co-ordinate and facilitate business networking with foreign buyers through the participation of Malaysian exporters in international trade fairs and trade and investment missions abroad.
Organise promotional activities for Malaysian products and services in the countries where MATRADE overseas offices are located. One such initiative is the drive to promote Malaysian food, beverage products and furniture among Asian communities in the USA. As stated by the then MATRADE Trade Commissioner in New York, Jamaludin Hussain, the targets were Malaysians „who were already in business in the US and Asians from countries like China, Vietnam, Hong Kong and Taiwan who were aware of Malaysian products but had no dealings with the country” (The Star, 23 April 2003).

Foreign buyers can avail themselves of the services provided by these overseas offices to gain information about Malaysian capabilities, products and services. They can also seek assistance in organising business meetings in Malaysia and request for meetings with key decision makers in the public and private sectors in Malaysia.

Additionally, as shown in Table 2.11, MATRADE has other export development and promotional activities. A key objective is to create opportunities for SMEs to enter new markets, interact with international services companies, establish international collaborations and networking links and promote relationships with overseas buyers (www.matrade.gov.my).

<table>
<thead>
<tr>
<th>Table 2.11 Selected MATRADE’s Exporters Development Programmes</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Market Development Grant</td>
</tr>
<tr>
<td>• Brand Promotion Grant</td>
</tr>
<tr>
<td>• Services Export Fund</td>
</tr>
<tr>
<td>• Exporters”Training (Seminars, workshops &amp; briefings)</td>
</tr>
<tr>
<td>• MATRADE”s Exporters” Database</td>
</tr>
<tr>
<td>• Dialogues with industry associations, chamber of commerce, Malaysian exporters</td>
</tr>
</tbody>
</table>

Source: Developed from MATRADE’s website (www.matrade.gov.my).

For these purposes, SMEs can secure assistance to participate in international trade fairs, buying missions, trade promotion visits, specialised marketing missions, promotion booths, business matching and trade investment missions. Organised by MATRADE, more than 60 overseas trade promotion activities are planned for 2008 (SME Focus Issue 29 February 2008).
Second, the SMIDEC’s Global Suppliers Programme (GSP) which links credible SMEs with established MNCs for entering international markets. Five companies are now linked with British Telecom, with potential sales of RM10 million. Another 47 companies are linked with TESCO, the British supermarket “giant”, of which 16 have their products supplied to TESCO in London (The New Straits Times 5 October 2007).

Third, is brand development. MATRADE and SMIDEC are supporting Malaysian SMEs with their brand development and branding strategies. The target is to develop 100 home grown company brands and promote them into international brands through the Brand Promotion Grant administered by MATRADE. Of these, 60% are expected to emerge from SMEs (Darshan 2006).

Fourth, the programme implemented by SMIDEC to encourage SMEs to engage with the international economy through cross-border investments. It includes the Funds for Cross-Border Investment in Manufacturing Programme, which was designed to facilitate the relocation or expansion of Malaysian SMEs operations abroad (Zainal 2005).

### 2.8.7 The SMEs Programme Delivery Framework

As stated in Sub-Section 2.8.5, a total of 189 key SME support programmes were planned for implementation in 2007. This complex exercise, involves 14 Government Ministries, Bank Negara Malaysia, 32 Government-related agencies as well as the State Governments and their Agencies (SME Annual Report 2006). The principal Government agencies for the formulation and implementation of policies and strategies are:

i) MITI which is responsible for all international trade and investment policies. Under its purview are:

- SMIDEC which is the national coordinator for SMEs programmes and the National SME Blueprint. It also provides advisory services, financial support and assistance for technology enhancement, human resources development and market access.
• MATRADE whose responsibilities include external trade promotion, brand development and implementing the Market Development Grant, Brand Promotion Grant and the Services Export Fund.

• Malaysian Industrial Development Authority (MIDA) which approves all foreign and domestic investments in the manufacturing sector.

ii) The Ministry of Entrepreneur and Cooperative Development (MECD) which implements a range of programmes to enhance the quality of Bumiputera entrepreneurs.

iii) The Ministry of Plantation, Industries and Commodities (MPIC) which focuses on encouraging the participation of SMEs in the commodities sector.

iv) MOSTI which develops and drives entrepreneurship, through technology and quality to enhance the competitiveness of ICT SMEs.

v) The Bank Negara Malaysia, whose main priority is to ensure that SMEs have access to financing through the Credit Guarantee Corporation, banking institutions and development financing institutions. These include the SME Bank, which was established to help SMEs grow, innovate and achieve excellence in their business activities.

vi) The Malaysian Technology Development Corporation (MTDC) which assists SMEs to develop technologies and acquire strategic foreign technologies.

2.8.8 The Effectiveness of the Malaysian Government’s Measures

The literature revealed that the Malaysian Government has a range of supportive programmes and incentives to assist SMEs. However, the findings of some prior research questioned the effectiveness of Government support on the grounds that:

• Many SMEs remain ignorant of the available assistance (FMM 1995).
• The Government still has much work to do in export promotion particularly with smaller firms and fledging exporters (Ahmed et al. 2002).

• Organisations such as the Federation of Malaysian Manufacturers (FMM), Trade Associations, Chambers of Commerce and commercial banks - rather than the Government agencies - were seen to be filling the export promotion needs of firms (Ahmed et al. 2002).

• The large number of Government Ministries and agencies responsible for the delivery of SMEs programmes. This raises the issue of the duplication of efforts and coverage. It therefore raises the need for the coordination of all policies by a powerful central agency (Selvanathan 1999; Asokkumar 2006; Salleh & Ndubisi 2006).

• The application procedures were cumbersome and that the processing time of government grants needs to be reduced (Yap 2003).

• Only a small percentage of SMEs appear to have benefited from the new sources of finance including venture capital. This could be due to their belief that they are not the targeted beneficiaries as several of the NEP linked programmes are only for Bumiputeras (Asokkumar 2006).

Are these concerns valid? The literature revealed that the Government has openly acknowledged the key challenges that face SMEs (National SME Development Blueprint 2007) and has taken two pragmatic initiatives.

First, for SMIDEC to become the SME Central Coordinating Agency to spearhead the development and implementation of all SME programmes (www.bnm.gov.my). Second, the establishment of PEMUDAH, a joint high level public-private sector task force, to streamline delivery systems and expedite programme implementation. The SMI Association of Malaysia found that „most of (its) wish list has been granted” (The New Straits Times, 27 October 2007, p. 4).
Concerns on the access by all Malaysian SMEs to the Government’s programmes were addressed by the Prime Minister when he stated on August 2004 that SME loans will be given to SME business owners regardless of their race. This was in response to the question posed to him as to whether SME loans are only meant for Bumiputera companies (Fam 2007).

Notwithstanding, the situation calls for more attention to be given to encourage all potential and deserving SMEs to participate in SME support programmes. This may require a renewed promotion effort to increase the awareness of the available financial incentives including loans and grants. It should also be matched by greater transparency on the approval process for grants and soft loans.

2.8.9 Conclusion

This Section presented the case for public policy support for SMEs. It cited the examples of Singapore, Thailand and Vietnam. The Malaysian Government policies were then critically examined, in terms of purposes, target beneficiaries and the adequacy of delivery mechanisms. The findings indicated the need for a review of the programmes in order to increase their effectiveness and widen their coverage to include all manufacturing SMEs. The next Section analyses the secondary data that emerged from the literature review.

2.9 The Research Gaps and Research Problem

The literature review, as stated in Sub-Section 2.1.1, had several purposes. A significant one, presented in this Section, is the identification of the gaps in the existing body of knowledge in order to establish the research questions.

The review revealed that there was adequate information on the parent disciplines of internationalisation, entrepreneurship and CSR. There was also much literature on the Malaysian Government’s support policies for the SMEs. However, as depicted in Table 2.12, there are gaps in the existing body of knowledge with respect to:
- The coverage, effectiveness and delivery systems of the Government’s policies and programmes.
- CSR practices by Malaysian SMEs.
- The preparedness of Malaysian SMEs to compete in the new economy.
- The appropriate approaches for Malaysian SMEs to internationalise their operations successfully.

These gaps in the literature show that little prior research has been conducted on these issues despite their importance. These therefore reaffirm the relevance of the research problem, stated in Section 1.2, *What Are the Critical Factors for the Successful Internationalisation of Malaysian Manufacturing SMEs?*

### Table 2.12 Identification of Research Gaps

<table>
<thead>
<tr>
<th>Research Issues</th>
<th>Literature Coverage</th>
<th>Research Gaps</th>
</tr>
</thead>
<tbody>
<tr>
<td>- The Malaysian Economy</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>- Internationalisation</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>- International Entrepreneurship</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>- CSR Theories / Practices</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>- Malaysian Government’s CSR Policies</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>- Malaysian SMEs’ CSR Practices</td>
<td>Inadequate</td>
<td>Exposure, Business Benefits</td>
</tr>
<tr>
<td>- Malaysia Government’s Participation in FTAs</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>- A Global Outlook / New Economy</td>
<td>Inadequate</td>
<td>Mindsets, Strategies Linkages</td>
</tr>
<tr>
<td>- Value Chain</td>
<td>Inadequate</td>
<td>R&amp;D, Innovation, Branding</td>
</tr>
<tr>
<td>- Capital</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>- SMEs” Internationalisation</td>
<td>Inadequate</td>
<td>Strategies, Management, Structures</td>
</tr>
<tr>
<td>- Government Policies</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>- Adequacy of Policies</td>
<td>Inadequate</td>
<td>Coverage, Target Groups, Implementation</td>
</tr>
</tbody>
</table>

Source: Derived from the review of the Research Issues.
2.9.1 Research Questions Development

„Empirical research is driven by research questions” (Punch, 1998, p. 34). Since research can be complicated, good research questions enable the researcher to stay on track. To address this research problem and based on the research gaps, the following four research issues were identified and are presented as research questions.

Much of the literature on SMEs internationalisation was conducted in Canada and in Europe. There were some prior studies on SMEs’ internationalisation in Singapore, Thailand and Vietnam. However, there was little information on this research issue, in respect of Malaysian SMEs. Therefore, the first research question which emerged from this research gap was:

**Research Question 1**

Why is it necessary for Malaysian manufacturing SMEs to emphasise on internationalisation as a strategy for gaining sustainable global competitive advantage?

The review revealed that CSR is gaining importance in the developed countries as well as in some developing countries. Several theories have been developed on CSR and the links with strategic planning and reputational advantage as sources of sustainable competitive advantage.

The limited previous research suggests that the Malaysian Government is now actively promoting CSR. Furthermore, several MNCs and large Malaysian firms appear to be committed to socially responsible behaviour. However, there was little research on the extent of CSR practices by Malaysian SMEs; despite the importance attached to them by international customers and investors. Therefore, the second research issue which emerged was:

**Research Question 2**

Why should Malaysian manufacturing SMEs pay greater importance to CSR practices to meet the requirements of international customers and investors?
The discussions in Section 2.8 revealed that the Malaysian Government has a wide range of support programmes and delivery systems to support entrepreneurs and assist Malaysian SMEs to increase their external market presence. The incentives include access to capital, capacity building for R&D, innovation, brand development and forging linkages with international partners. Their support schemes included marketing missions, trade fairs, business matching, market development and brand promotion.

As set out in Sub-Section 2.8.8, the Malaysian Government has made SMIDEC the nation’s Central Coordinating Agency to coordinate all SMEs’ support programmes. It has also created the high level task force, PEMUDAH, whose responsibilities include the streamlining of delivery systems and expediting programme implementation.

However, there were very few studies on the effectiveness of Government policies and the adequacy of the delivery systems from the perspectives of the target beneficiaries. Accordingly, the third research question which emerged was:

**Research Question 3**

| How adequate are the existing national policies for the internationalisation of Malaysian SMEs? |

The earlier research studies highlighted the challenges that confront SMEs in a globalising world. These were mindsets, R&D capabilities, technological upgrading, management skills and a move up the value chain.

The literature review also outlined the proactive measures taken by the Governments of Singapore, Thailand and Vietnam to support the internationalisation of their SMEs. However, little research has been undertaken on the appropriate strategies that Malaysian SMEs should adopt to overcome the challenges they face to internationalise their operations. This justifies the fourth research question, namely:

**Research Question 4**

| What are the desired approaches for the internationalisation of Malaysian manufacturing SMEs in the context of a globalising world? |
2.9.2 The Research Propositions

Propositions are „the statements that make up theories” (Berg, 2004, p. 17). They are about relationships between concepts (Maxfield & Babbie 2001). A proposition is a testable theoretical statement that specifies the relationship between two or more concepts. „A researcher will try to learn the truthfulness of a proposition by evaluating whether it confirms to empirical evidence or data” (Neuman, 2006, p. 28). Guided by these authorities, the four identified research questions were converted into corresponding propositions for empirical testing by this research. They are:

Research Proposition 1
Malaysian manufacturing SMEs attach importance to internationalisation strategies for gaining sustainable global competitive advantage.

Research Proposition 2
Malaysian manufacturing SMEs give emphasis to CSR practices to meet the requirements of international customers and investors.

Research Proposition 3
The Malaysian Government has comprehensive and effective policies and programmes to support the internationalisation strategies of all Malaysian manufacturing SMEs.

Research Proposition 4
Malaysian SMEs face challenges for adopting and implementing appropriate internationalisation strategies to address global competitive challenges.

2.10 Conclusion

This Chapter reviewed the pertinent literature on the research topic with the key aims of rationalising the significance of the research problem; developing a theoretical framework for the study and identifying gaps in the existing body of knowledge on the research problem.
The review commenced with a discussion of the Malaysian economy in order to provide the contextual setting for the review. It then identified the key research issues and the pertinent theories associated with the parent disciplines of the research, namely, internationalisation, international entrepreneurship and CSR practices. The review revealed that the international entrepreneurship model developed by Antoncic and Hisrich (2000) was of particular significance and relevance to this research.

Prior research undertaken revealed that although the Malaysian Government had in place a wide range of support policies, the manufacturing SMEs still face several challenges to remain competitive in a globalising world. However, there was inadequate literature on the preparedness of the SMEs for becoming internationalised, their adoption of CSR practices and the effectiveness of the Government’s SMEs support programmes.

These critical research gaps enabled the development of four research questions and the crafting of four research propositions for testing by this research. The next Chapter details the research methodology for the study.
Chapter 3: RESEARCH METHODOLOGY and DESIGN
CHAPTER 3 – RESEARCH METHODOLOGY AND DESIGN

3.1 Introduction

Chapter 1 introduced the study and outlined the selected methodology and research design. It also summarised the data collection procedures and the measures for improving the trustworthiness of the research findings.

Chapter 2 reviewed the literature pertinent to the research topic in order to identify the key research issues and theories relevant to this research. The secondary data analysis revealed gaps in the body of knowledge. These permitted the development of the research questions and the crafting of the research propositions for testing by this research. They are re-stated below for ease of reference:

i) Malaysian manufacturing SMEs attach importance to internationalisation strategies for gaining sustainable global competitive advantage.

ii) Malaysian manufacturing SMEs give emphasis to CSR practices to meet the requirements of international customers and investors.

iii) The Malaysian Government has comprehensive and effective policies and programmes to support the internationalisation strategies of all Malaysian manufacturing SMEs.

iv) Malaysian SMEs face challenges for adopting and implementing appropriate internationalisation strategies to address global competitive challenges.

This Chapter details the methodology adopted for this research and the research design. The key components of the research design and their linkages are reflected in the Concept Map presented in Figure 3.1.

Based on the Concept Map, this Chapter is divided into seven Sections as shown in Figure 3.2.
Section 3.2 describes the principal research paradigms and justifies a combination of the qualitative and quantitative approaches. The next Section 3.3 sets out the research design. It discusses the dimensions of the research, namely, exploratory, descriptive and explanatory, and justifies the use of a two-stage approach.

Section 3.4 details the data collection techniques for the study. Qualitative data was collected through an expert panel and a focus group. A questionnaire survey, using a five-point Likert scale for attitude measurement, was used to collect quantifiable data.

Section 3.5 discusses the measures taken to improve research quality by addressing the issues of reliability and validity.
Section 3.6 explains the data analysis procedures for the collected qualitative and quantitative data. Since ethical issues arise at every stage of conducting social research, these are addressed in Section 3.7. The final Section presents the conclusions for this Chapter.

Figure 3.2 Structure of Chapter 3

3.1 Introduction
   Concept Map

3.2 The Justification For The Research Paradigm
   Quantitative, Qualitative, Combined Approach

3.3 The Research Design
   Research Dimensions, Unit of Analysis

3.4 Data Collection Instruments
   Expert Panel, Focus Group, Questionnaire Survey

3.5 Goodness of Measures
   Reliability, Validity

3.6 Data Analysis
   Qualitative Data, Quantitative Data

3.7 Ethical Considerations
   Information Sheets, Informed Consent Form

3.7 Conclusion

Source: Developed for this Research.
3.2 Justification for the Research Paradigm

The conduct of business research is guided by a paradigm or research approach. A paradigm

"reflects a basic set of philosophical beliefs about the nature of the world. It provides
guidelines and principles concerning the way research is conducted within the paradigm.
The methods and techniques used in the research should be in sympathy with these
guidelines and principles" (Ticehurst & Veal, 2000, p. 25).

Accordingly, paradigms "determine both what problems are worthy of exploration and also
what methods are available to attack them" (Deshpande, 1983, p. 102). However in
practice, the term paradigm is "loosely used in academic research and can mean different
things to different people" (Hussey & Hussey, 1997, p. 148).

"The debates surrounding research paradigms have a long history and were particularly
alive in the 1980s" (Cameron & Miller, 2007, p.2). The ontological, epistemological and
methodological assumptions of a paradigm, usually determine the methodology to be used
and the nature of the researcher’s involvement (HICSS 2003).

- Ontology is the fundamental assumption that is made about the nature of reality
  specifying what and how it exists (Guba & Lincoln 1994; Parkhe 1993).

- Epistemology refers to the process of knowing and the relationship between the
  researcher and that which is to be known (Guba & Lincoln 1994).

- On the other hand, methodology determines how the researcher goes about
  investigating that which is to be known (Guba & Lincoln 1994; Zikmund 2000).

Figure 3.3 illustrates the linkages between ontology, epistemology, theory, methodology,
theoretical practice and actual practice and their interactions to create a world view.

The first step was to identify the preferred research methodology. This was based on the
research paradigm that was considered most appropriate for achieving the objectives of the
research.
There are numerous paradigms to guide research. „There is no universal paradigm present and philosophers and methodologists have been engaged in a long standing debate on how best to conduct research” (Patton, 1990, p. 37). Guba and Lincoln (1994) identified four paradigms comprising positivism, realism, critical theory and constructivism.

Figure 3.3 Structure of Scientific Practice

![Diagram of Scientific Practice]

Source: Adapted from Ardebili (2001).

However, other authorities identified two principal paradigms: quantitative (positivist) and qualitative (post-positivist), each with unique strengths and limitations (Parkhe 1993; Zikmund 2000; Cameron & Miller 2007). Shown in Figure 3.4, these are also referred to as the inductive and deductive paradigms (Parkhe 1993) and this two-category classification is used for this research.
Figure 3.4 also indicates a dichotomy between both approaches. The inductive paradigm is „more subjective idiographic, insider in nature and qualitative” (Parkhe, 1993, p. 235) and leads to new theory generation. In contrast, the deductive approach is objective, focuses on value-free data and adopts experimental methods for the testing of theory. Some authorities refer to the two approaches as qualitative and quantitative, logical-positivism and phenomenology (Easterby-Smith 1991; Patton 1990) or scientific and interpretive (Robson 1993).

Figure 3.4  Aspects of the Inductive and Deductive Research Approaches

In this thesis, the terms qualitative and quantitative are considered as the two broad categories that divide the research paradigms. Table 3.1 describes each of the two paradigms in terms of their characteristics.
Table 3.1  The Two Principal Research Paradigms

<table>
<thead>
<tr>
<th></th>
<th>Quantitative paradigm</th>
<th>Qualitative paradigm</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ontology</strong></td>
<td>Social facts have an objective reality independent of the knower</td>
<td>Reality is socially constructed and arises out of social interaction</td>
</tr>
<tr>
<td><strong>Epistemology</strong></td>
<td>Dualist / objectivist</td>
<td>Transactional / subjectivist</td>
</tr>
<tr>
<td><strong>Purpose</strong></td>
<td>Generalisability</td>
<td>Contextualisation</td>
</tr>
<tr>
<td><strong>Researcher role</strong></td>
<td>Objective and remote</td>
<td>Up close and personal</td>
</tr>
<tr>
<td><strong>Methodology</strong></td>
<td>Hypothetico-deductive</td>
<td>Inductive/interpretive</td>
</tr>
<tr>
<td><strong>Data collection</strong></td>
<td>Reduction / aggregation of data to numbers</td>
<td>Capture lived experience of informants</td>
</tr>
<tr>
<td><strong>Data analysis</strong></td>
<td>Falsification of null hypothesis with statistical tests</td>
<td>Identify recurring themes and patterns in the search for meaning</td>
</tr>
</tbody>
</table>

Source: Adapted from Parkhe (1993); Guba and Lincoln (1994); Perry, Alizadeh and Riege (1997); McMurray (2007).

3.2.1 The Quantitative Paradigm

„Quantitative research is concerned with the collection and analysis of data in numeric form and tends to emphasise relatively large-scale and representative sets of data“ (Blaxter et al., 1996, p. 60). The quantitative or positivist paradigm is characterised by the use of theoretical propositions to be empirically tested to determine if such propositions are true (Easterby-Smith, Thorpe & Lowe 1991).

The quantitative paradigm is premised on a world that can be completely and objectively described and measured (Lincoln & Guba 1985). Quantitative approaches are deductive and objective with the researcher’s role being value-free. The researcher is a „disinterested scientist“ searching for a general cause-effect relationship that is logically derived from a possible causal law (Neuman, 1997, p. 67).
The ontology of positivism asserts that only science can discover the true nature of reality. In other words, „there is a single apprehensible reality composed of discrete elements whose nature can be known and characterised“ (Perry, Alizadeh & Riege, 1997, p. 129).

From the perspective of epistemology, the researcher is detached from the research process; looking at the exercise through a one-way mirror. Consequently, the findings are value-free and theory-free (Guba & Lincoln 1994).

The epistemological perspective is achieved through the use of experiments and surveys. Furthermore, the positivist paradigm emphasises on theory testing.

The quantitative paradigm has several strengths. These include the replicability of results and the generalisability of the research findings as its conduct requires a rigorous research design and a large survey sample.

It also has weaknesses. While a quantitative researcher is able to observe behaviour, the collection and measurement of value-free data implies that the researcher is not in a position to observe or understand through the use of judgment the reasons for the behaviour (Limerick & Cunnington 1993).

### 3.2.2 The Qualitative Paradigm

Qualitative research comprises

„an array of interpretive techniques which seek to describe, decode, translate and otherwise come to terms with the meaning, not the frequency, of certain more or less naturally occurring phenomena in the social world“ (Ticehurst & Veal, 2000, p. 94).

The research procedures are unstructured and diverse, but specific to each project (Bryman & Burgess 1999). Data from qualitative research are normally in the form of words and images from the pertinent literature and other documented sources, observations and transcripts (Neuman 2006). Qualitative methods, generally, examine people’s words and actions through an in-depth investigation of situations (Ragin 1994).
Qualitative research is therefore interpretive and subjective. The ontology of this paradigm is that reality is based on the individual’s perceptions of reality and the belief system held in a particular context (Perry, Alizadeh & Riege 1997). As such, there are “multiple realities” (Hirshman, 1986, p. 239).

In the epistemology of this paradigm, the relationship between the researcher and reality is subjectivist. The researcher becomes a passionate participant and adopts an insider approach, by being close to those participating in the research (Hirshman 1986). The research findings are therefore created jointly by the researcher and the respondent (Guba & Lincoln 1994).

Furthermore, qualitative approach focuses on the full complexity of human experiences and values in order to collect the relevant data to support the research. For objectivity, this paradigm depends on the triangulation of several perceptions to capture a better picture of the phenomena (Guba & Lincoln 1994).

Qualitative research is well suited for exploring new topics that have not been previously addressed in specific studies or where existing theory does not apply to a research topic under investigation (Morse 1991 cited in Creswell 2003). Qualitative research is useful where there is a need to explore and describe a new phenomenon and to develop theory (Creswell 2003; Flick, Kardoff & Steinke 2004). Furthermore, the qualitative paradigm generates rich, detailed data that leave the participants’ perspectives intact and provide a context for their behaviour (Weinreich 2003).

This paradigm’s disadvantage is that its findings are usually not generalisable in terms of time and place. As such, the results may vary greatly depending upon who conducts the research (Carson et al. 2001; Sekaran 2000).

3.2.3 Justification for a Combined Approach

“The most important consideration is the rigor with which a chosen method is applied and the insights the methodology provides about the business problem being investigated”
(McCall & Bobko, 1990, p. 412). This authoritative view guided the choice of the methodology for this research.

This Section therefore justifies the use of a combined approach as the qualitative method’s weakness is the quantitative method’s strength and vice versa. This makes a case for integrating the two methods to provide a more complete picture of the issue being addressed (Steckler et al. 1992). “Pure induction without prior theory might prevent the researcher from benefiting from existing theory, just as pure deduction might prevent the development of new and useful theory” (Carson et al., 2001, p. 56).

Further, qualitative and quantitative research methods are not mutually exclusive. They can be used in a complementary fashion and applied in different phases of a full research project (Zikmund 2000). Quantifiable data emerging from large samples and some statistics are important aspects of marketing research, and are better suited for the generalisability of the findings of qualitative approach (Easterby-Smith, Thorpe & Lowe 1991).

The researcher recognised that each approach has positive attributes and that a combination of inductive and deductive approaches is likely to produce better results in terms of results and scope. Furthermore, a mixed method permits a probing of the underlying issues and the adoption of creative alternatives to carry out research (Greene & Caracelli 1997).

For the stated reasons, the quantitative and qualitative approaches were used in a complementary fashion as the research strategy in this research. They were used to cross validate and build upon each other’s findings (Steckler et al. 1992). However, given the objectives of the research, which include an understanding of the perspectives of the owners and managers of SMEs, this research was largely inductive or qualitative in nature. The use of the quantitative paradigm, as a supplementary approach, permitted a better control for bias and for greater objectivity in respect of the findings.
3.3 The Research Design

Empirical research in social science proceeds in a variety of settings and contexts. The choice of a design setting for any research is generally a vital concern of the researcher (Miller, 1991, p. 31). "The design for a research project is literally the plan for how the study will be conducted" (Berg, 2004, p. 31). The Master Plan developed for this research is shown in Figure 3.5. It depicts the dimensions of the research, the selected data collection instruments, the sources of data and the procedures for analysis. These are elaborated below.

![Figure 3.5 Master Plan for this Research](image)

Source: Developed for this Research.

3.3.1 Dimensions of Research

The purpose of the research influences decisions on the appropriate design for its conduct (Zikmund 2000; Cavana, Delahaye & Sekaran 2001; Cooper & Schindler 2003). Studies can be exploratory, descriptive in nature or experimental and each of these is outlined below.

3.3.1.1 Exploratory Research

An exploratory study is usually conducted when the researcher knows little of the situation at hand or when limited information is available on how similar research issues had been
addressed in the past. Exploratory research is therefore appropriate for clarifying ambiguous problems, crystallising them and identifying information needs for future research (Sekaran 2000; Zikmund 2000; Cooper & Schindler 2003).

Exploratory research seeks to discover new relationships. The output, which is qualitative in nature, serves as a basis for subsequent quantitative research (Rubin & Babbie 1994; McDaniel & Gates 1996; Zikmund 2000).

3.3.1.2 Descriptive Research

As implied by the term, a descriptive study is undertaken to describe the characteristics of the variables of interest in a situation. Another purpose is to gain an understanding of the characteristics of an organisation that follows certain common practices, e.g., the practices adopted by small and medium manufacturing enterprises for internationalising their operations. Therefore, descriptive research can describe and seek answers to „who”, „what”, „when”, „where” and „how” questions (Zikmund 2000).

As aptly stated by Cavana, Delahaye and Sekaran (2001), descriptive studies assist in:

- Understanding the characteristics of a group in a given situation.
- Thinking systematically about aspects in a given situation.
- Offering ideas for further research.

3.3.1.3 Experimental or Causal Research

This type of research, also referred to as hypothesis testing, usually explains the nature of certain relationships, or establishes the differences among groups, or the independence of two or more factors in a situation (Cavana, Delahaye & Sekaran 2001). It can also establish cause and effect relationships (Sekaran 2000). In such research, the researcher controls the research situation so that causal relationships among variables can be
evaluated. This provides for greater internal validity (McDaniel & Gates 1996; Sekaran 2000).

3.3.1.4 Combining Exploratory and Descriptive Research

The topic for the research is „What are the critical factors for the successful internationalisation of Malaysian SMEs?” The literature review, conducted in Chapter 2, revealed limited information on the key research issues that relate to this topic. Accordingly, this research had to be exploratory in nature, in order to gain knowledge about the research problem. One objective of this research was to identify the research problem. Another objective was to extend or generalise the findings (Perry 1995). Given these two main purposes, the researcher considered it appropriate to adopt a two-stage approach, as shown in Figure 3.6.

The first stage, was exploratory and qualitative in nature for developing new theory. The second, was descriptive and quantitative in order to generalise the findings. Notwithstanding, this research was largely exploratory in nature.

Figure 3.6 Combining Exploratory and Descriptive Research

Source: Adapted for this Research.
3.3.2 The Unit of Analysis

The next issue that had to be addressed was the unit of analysis. This is defined as „the level of aggregation of the data collected during the subsequent data analysis stage“ (Cavana, Delahaye & Sekaran, 2001, p. 119).

The research objective influences the unit of analysis. As the principal aim of this research was to determine the critical factors for the internationalisation of Malaysian manufacturing SMEs, the manufacturing SMEs were targeted for this research. However, due to time and resource constraints, the unit of analysis comprised export orientated manufacturing SMEs located in the Federal Territory of Kuala Lumpur and the States of Selangor and Negeri Sembilan.

3.4 Data Collection Instruments

The research design, as discussed in Section 3.3, called for a two-stage approach. The first being exploratory in nature, involved the collection of qualitative data. The second stage was descriptive, requiring the collection of quantifiable data. Accordingly, the different data collection instruments, as shown in Figure 3.7, were examined to decide on the most appropriate data collection instruments for this research.

Figure 3.7 The Data Collection Instruments

Source: Developed for this Research.
3.4.1 Interviewing

„The purpose of interviewing is to find out what is in and on somebody else’s mind” (Patton, 1990, p. 278). Interviewing is „a conversation with a purpose“ (Berg, 2004, p. 25).

The qualitative researcher seeks to access the mind of the person being interviewed and is conducted on the premise that the person being interviewed is knowledgeable (Patton, 1990). The aim of the researcher therefore is to benefit from the individual views expressed by each of the interview participants.

In business research, there are three types of interviews: telephone interviews, computer assisted interviews and face-to-face interviews (Cavana, Delahaye & Sekaran 2001). A summary of the advantages and disadvantages of each is depicted in Table 3.2.

Table 3.2 Summary of Advantages and Disadvantages of the Personal, Telephone and Computer Assisted Interviews

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Face-to-face</th>
<th>Telephone</th>
<th>Computer Systems</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data collection speed</td>
<td>Moderate</td>
<td>Very fast</td>
<td>Instantaneous</td>
</tr>
<tr>
<td>Geographical location</td>
<td>Limited and confined</td>
<td>Unlimited</td>
<td>Unlimited</td>
</tr>
<tr>
<td>Respondent cooperation</td>
<td>Very high</td>
<td>Good</td>
<td>Variable</td>
</tr>
<tr>
<td>Versatility of questioning</td>
<td>Very versatile</td>
<td>Moderate</td>
<td>Modest</td>
</tr>
<tr>
<td>Question non-response</td>
<td>Low to medium</td>
<td>Medium</td>
<td>Very Low</td>
</tr>
<tr>
<td>Respondent misunderstanding</td>
<td>Low</td>
<td>Average</td>
<td>High</td>
</tr>
<tr>
<td>Interviewer influence</td>
<td>High</td>
<td>Moderate</td>
<td>None</td>
</tr>
<tr>
<td>Supervision of interviews</td>
<td>Moderate</td>
<td>High</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Anonymity of respondent</td>
<td>Low</td>
<td>Moderate</td>
<td>High</td>
</tr>
<tr>
<td>Ease of call back or follow up</td>
<td>Difficult</td>
<td>Easy</td>
<td>Difficult</td>
</tr>
<tr>
<td>Cost</td>
<td>Very high</td>
<td>Low</td>
<td>Low</td>
</tr>
</tbody>
</table>

Source: Adapted from Zikmund (2000, p. 212).
i) *Telephone interviews*

These are best suited when quick information is required from a large number of respondents over a wide geographical area. Due to cost constraints, the duration of each of such interviews has to be kept short (Sekaran 2000). This method was rejected as the number to be interviewed in this research was very small.

ii) *Computer assisted interviews*

In these interviews, questions are flashed on to the computer screen and interviewers can enter the answers given by the respondent directly into the computer. Although computer assisted interviews are quick to administer, the interview numbers should be sufficiently large to justify the programming costs (Cavana, Delahaye & Sekaran 2001). Since the numbers to be interviewed in this research were very small, this method was also rejected.

iii) *Face-to-face interviews*

These enable the researcher to adapt the questions as required, and when necessary, clarify doubts by repeating or re-phrasing the questions. The researcher can also pick up non-verbal expressions from the respondents (Berg 2004). Given these advantages and the small number of persons to be interviewed, face-to-face interviews were the preferred modality for this research.

### 3.4.1.1 The Selected Interview Instrument

„Face-to-face” interviews have a number of advantages compared to other data collection instruments (Berg 2004). One distinct advantage is the opportunity for the researcher to probe and seek comprehensive explanations when the respondent’s answer is too brief or is unclear (Zikmund 2000). Another is that the researcher has the flexibility of adapting or changing the questions during the course of an unstructured interview (Sekaran 2000).

On the negative side however the „face-to-face” interview is more costly as compared to other data collection instruments (Zikmund 2000). There may be substantial travelling involved that will also have an impact on the time allocated to complete the research (Sekaran 2000).
The researcher took into account all the views of the named authorities. However, due to time and cost constraints, it was decided to confine the interviews to a small expert panel.

### 3.4.2 Composition of the Expert Panel for the Personal Interviews

Expert panels are another source of information for research purposes (Cavana, Delahaye & Sekaran 2001). The researcher identified several persons with much experience and knowledge about government policies for SMEs and the internationalisation efforts of manufacturing SMEs. After approaching and discussing the research topic with a number of them, seven persons agreed to participate in the expert panel. One was from academia, another from a manufacturing industry association, two high level Government officials and three others with expert knowledge of the manufacturing industries.

### 3.4.3 The Focus Group

The focus group is a research technique that collects information through group interaction on a research topic. The researcher’s interest provides the focus while the information comes from the group interaction. A focus group is a quick and convenient way to collect data from several people simultaneously (Morgan 1997).

In focus groups, the participants are encouraged to talk to each other and share views. This method is therefore useful for exploring peoples’ knowledge, viewpoints and experiences. It is also well suited to examine what people think, how they think and why they think in a particular way (Kitzinger 1995).

Group work, through focus groups, can also help to overcome potential difficulties. This includes obtaining the views of people who are pertinent to the research project but who are not proficient in the English language. The „safety in numbers factor, may also encourage the participation of those who are weary of an interviewer or who are anxious about talking“ (Kitzinger, 1995, p. 4).

Several of the target participants from Malaysian manufacturing SMEs were not proficient in the English language. Owners and managers of SMEs are weary of being interviewed.
given their culture and their background. For these reasons, focus group was selected as one of the data collection techniques.

### 3.4.4 Focus Group Composition

Careful thought was given to the size and membership of the group to ensure that the group discussions were not dominated by one or two stronger participants (Cavana, Delahaye & Sekaran 2001). Another criterion for selection was the diversity of interests of the participants. Given the objectives of the study, it was considered important to establish a focus group with sufficient variations among participants to allow for contrasting opinions (Kitzinger 1995).

Kruger (1994) suggested a range of six to nine members for a focus group. Guided by this, the focus group comprised seven participants who were considered pertinent for this research. They were:

i) Two representatives of manufacturing SMEs.
ii) One international marketing consultant.
iii) Two representatives of Government agencies responsible for SMEs.
iv) One representative from the academic community.
v) One representative from a manufacturing industry association.

#### 3.4.4.1 Planning the Focus Group Meeting

Focus group sessions should be relaxed and sitting in a circle helps to establish the right atmosphere (Kitzinger 1995). A focus group meeting was held on 21 March 2008 over tea in the lounge of a respectable hotel in Kuala Lumpur.

Prior to the meeting, the researcher telephoned the identified members to reconfirm their interests and participation. An Information Sheet outlining the purpose of the research and the functions of the focus group was sent to each of them. They were also given an Informed Consent Form which clearly stated the purposes of the research. It also reassured the members that:
• Their participation was voluntary and that they could withdraw at any time without giving a reason.

• Their names would be kept confidential.

• A record of the meeting would be given to them for their comments.

• They could communicate directly with SCU if they had any grievances.

After receipt of the signed Informed Consent Form from each of the members, the researcher finalised the arrangements for the meeting.

3.4.4.2 Conducting the Focus Group Meeting

A variety of forces operate within a group and these forces are known collectively as group dynamics. Furthermore, group facilitators should stay at the process level and not be involved with the content (Cavana, Delahaye and Sekaran 2001).

Guided by these authorities, the researcher only managed the process. Acting as a moderator and facilitator, the researcher allowed members of the group to retain control of the discussions in order to gain the full benefits of their candid views. As some of the issues were sensitive, the discussions were not tape recorded. However, detailed notes were taken during the meeting.

3.4.5 The Questionnaire Survey

This research instrument permitted the gathering of information through the use of a questionnaire. These surveys are useful when data are required from relatively large samples that are representative of a wider target population (Ticehurst & Veal 2000).

As shown in Figure 3.8, there are three essential steps relating to the conduct of a questionnaire survey and these are discussed below.
3.4.5.1 Modality for Questionnaire Completion

The questionnaires can take two forms. They can either be completed by the interviewer or by the respondent. In respect of the former, the interviewer verbally presents the questions to the respondent and records the responses. In respect of the latter, the respondents read and fill up the questionnaire by themselves. The advantages and disadvantages of each are shown in Table 3.3.

Table 3.3 Interviewer versus Respondent Completion

<table>
<thead>
<tr>
<th>Interviewer completion</th>
<th>Respondent completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advantages</td>
<td></td>
</tr>
<tr>
<td>More accuracy</td>
<td>Cheaper</td>
</tr>
<tr>
<td>Higher response rates</td>
<td>Quicker</td>
</tr>
<tr>
<td>More complete answers</td>
<td>Relatively anonymous</td>
</tr>
<tr>
<td>Disadvantages</td>
<td></td>
</tr>
<tr>
<td>Higher cost</td>
<td>Patchy response</td>
</tr>
<tr>
<td>Less anonymity</td>
<td>Incomplete response</td>
</tr>
</tbody>
</table>

Source: Adapted from Ticehurst and Veal (2000).
The choice of the preferred data instrument depends on the nature of the study, costs and resources available for data gathering (Sekaran 2000). The respondent completion mode was used as it was less expensive and easier to administer as compared to the interview completion mode. The questionnaires were sent to the respondents either by e-mail, fax or in some instances, by personal delivery.

3.4.5.2 The Questionnaire Design

A questionnaire survey is only as good as the questions asked (Zikmund 2000). Emphasis was therefore given to the design of the questionnaire. Guided by Zikmund (2000), Ticehurst and Veal (2000) and Neuman (2006), several factors were taken into account to ensure the relevancy and accuracy of the questions. The key design issues, listed in Table 3.4, are discussed below.

<table>
<thead>
<tr>
<th>a)</th>
<th>Nature of the questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>b)</td>
<td>Wording of the questions</td>
</tr>
<tr>
<td>c)</td>
<td>Number of questions and length of the questionnaire</td>
</tr>
<tr>
<td>d)</td>
<td>Sequencing of the questions</td>
</tr>
<tr>
<td>e)</td>
<td>Attitude measurement</td>
</tr>
</tbody>
</table>

Source: Adapted from Zikmund (2000).

A questionnaire could comprise either open-ended or pre-coded questions. An open-ended question is one where the interviewer asks questions on a range of answers and writes down the respondent’s reply. In a self completed questionnaire, a line or space is left for the respondents to provide their own answers. A closed or pre-coded question is one where the interviewer offers the respondent a range of answers to choose from.
Guided by the objectives of the study, the target population and cost considerations, the researcher requested the respondents to fill the questionnaire. Pre-coded questions were used in order to achieve relevancy and accuracy (Zikmund 2000; Ticehurst & Veal 2000).

i) **Nature of the Questions**

"Quasi-filter" questions are those that include in the answer choice "no opinion", "unsure" or "neutral" (Neuman, 2006, p. 289). Quasi-filtered questions were used in the questionnaire as some of the topic areas were sensitive but, nevertheless, important for the research. The quasi-filter questions provided an opportunity for respondents to take a neutral position if they were reluctant to give their views on the matter.

ii) **Wording of the Questions**

"The language of the questionnaire should approximate the level of understanding of the respondent" (Cavana, Delahaye & Sekaran, 2001, p. 229). A researcher should exercise extra care "if the respondents are heterogeneous or come from different life situations than his or her own" (Neuman, 2006, p. 277). Particular attention was therefore given to the wording of the questions in order to secure valid and reliable information and to give the respondents the feeling that they understand the questions.

Since several of the survey respondents were not very fluent in English, the questions were also kept simple and easy to understand. Double barrelled, ambiguous, leading and loaded questions were avoided to reduce researcher bias.

iii) **Number of Questions and Questionnaire Length**

Researchers tend to prefer long questionnaires as they are more cost effective. However, respondents being busy people are generally reluctant to fill long questionnaires. A short questionnaire of two or three pages is appropriate (Neuman 2006). Accordingly, a three-page draft questionnaire comprising sixteen questions was prepared by the researcher for pre-testing.
iv) **Sequencing**

The Funnel approach (Festinger & Katz 1966) was used for the sequencing of the questions. This facilitated the easy and smooth progress of the respondents through the items in the questionnaire. Questions of a general nature and those that were relatively easy to answer were placed in the beginning of the questionnaire with more difficult ones towards the end.

v) **Questionnaire Layout**

Layout is important. The questionnaire should be clear, neat and easy to follow (Neuman 2006). This is particularly so for mail and web questionnaires.

Three knowledgeable persons; an academic, a marketing expert and the general manager of a manufacturing SME, advised the researcher on the layout of the questionnaire, which was then pilot tested before finalisation.

### 3.4.5.3 Pre-Testing The Questionnaire by Knowledgeable Persons

It is important to pre-test the survey questionnaire (Sekaran 2000). This is to ensure that the questions are easily understood and appropriate for the testing of the research propositions. Three knowledgeable persons were requested to complete the draft questionnaire and to give their comments and views. The purpose was to determine whether:

- The number of questions was appropriate.
- The questions were of relevance to the research.
- They were easily understood.
- The questions were clear and unambiguous.
- Any of the questions were of a sensitive nature.
There was a need to translate the questions into Bahasa Malaysia or Mandarin.

The questionnaire was of the appropriate length to secure a good response rate and retain the respondent’s interest.

The knowledgeable persons advised that the number of questions be reduced from sixteen to twelve. They also suggested that the questionnaire be confined to less than three pages with some amendments being made to a few of the questions to make them more understandable from the respondents’ point of view. In line with these suggestions, the questionnaire was finalised with 12 pre-coded questions. These were rephrased as statements to permit attitude measurement.

3.4.5.4 The Survey Questions / Statements

The survey questions, re-casted as Statements and attached to the Informed Consent Form are as follows:

**Research Proposition 1:** Malaysian manufacturing SMEs attach importance to internationalisation strategies for gaining sustainable global competitive advantage.

Statement 1
*Malaysian manufacturing SMEs are not aware of the competitive challenges due to the AFTA and the WTO.*

Statement 2
*Malaysian manufacturing SMEs know that they cannot depend on the Malaysian market for their growth because of foreign competitors.*

Statement 3
*Malaysian manufacturing SMEs are implementing the necessary internationalisation policies for moving into new overseas markets.*
**Research Proposition 2:** Malaysian manufacturing SMEs give emphasis to CSR practices to meet the requirements of international customers and investors.

Statement 4
*Malaysian manufacturing SMEs recognise the importance of CSR practices for successfully penetrating international markets.*

Statement 5
*Malaysian manufacturing SMEs are not aware of the business benefits of implementing CSR practices.*

Statement 6
*Malaysian manufacturing SMEs require exposure and training on introducing strategic CSR practices for sustainable competitive advantage.*

**Research Proposition 3:** The Malaysian Government has comprehensive and effective policies and programmes to support the internationalisation strategies of all Malaysian manufacturing SMEs.

Statement 7
*The Malaysian Government’s SMEs support policies are not discriminatory and benefit all manufacturing SMEs.*

Statement 8
*Malaysian manufacturing SMEs cannot rely on the Government to provide the required support for internationalising their operations.*

Statement 9
*The Government agencies decide on applications for financial and other support from Malaysian SMEs in a speedy and efficient manner.*

**Research Proposition 4:** Malaysian SMEs face challenges for adopting and implementing appropriate internationalisation strategies to address global competitive challenges.
Statement 10
*Malaysian manufacturing SMEs have the management, planning and marketing capabilities for internationalising their operations.*

Statement 11
*Malaysian manufacturing SMEs have the required research and development (R&D) and innovative capabilities for producing and exporting world-class products at low costs.*

Statement 12
*Malaysian manufacturing SMEs do not have access to the financing required for internationalising their operations.*

### 3.4.6 Attitude Measurement

The research propositions and the statements in the questionnaire were aimed at collecting quantitative data. Therefore, an important step of the research design exercise was the selection of an appropriate scale for attitude measurement.

There are two main categories of attitude scales; the ranking scale and the rating scale. Ranking scales require the respondents to make comparisons and rank their choice. Rating scales, on the other hand, have several response categories that require the respondents to choose the category that best represents his/her attitude towards the object (Sekaran, 2000, p. 197).

The ranking scale was not considered to be suitable because the statements in the questionnaire did not require the respondents to rank their choices. Furthermore, the statements only required the respondents to provide their opinions or views on each of them; hence the decision to use a rating scale as opposed to a ranking scale.
3.4.6.1 Rating Scales

Rating scales are widely used for attitude measurement in the business arena (Zikmund 2000). The literature referred to a number of rating scales. However, for the purpose of this research, only three frequently used scales were considered. These were:

i) *Simple Attitude Scale*
   This basic scale requires the respondents to either agree or disagree to a single statement or question. There is no provision for a „neutral” answer. Furthermore, it could not provide fine distinctions in the attitudes of the respondents. Therefore, this scale was not used for this research.

ii) *Category Scale*
   This scale uses multiple items to elect a single response and is therefore a more flexible and sensitive measure. However, wording is the paramount factor for ensuring the effectiveness of this scale. This means that for each statement, a different descriptive dimension would have to be used (Cavana, Delahaye & Sekaran 2000). The statements in the questionnaire for this research only required the respondents’ degree of agreement or disagreement. As it was not intended to use varying wordings, this scale was not adopted.

iii) *Likert Scale*
   This is a popular scale because it is easy to administer. Respondents indicate the degree of agreement or disagreement to each research statement on a five points scale (Wong 1998). The five points are „strongly agree”, „agree”, „neutral”, „disagree” and „strongly disagree”. To measure attitudes, scores are assigned to the alternative responses. The respondents simply need to indicate their responses by circling or putting a tick to the closest area.

   The Likert scale was used for this research as it was considered best suited for drawing distinctions in the attitudes of the survey respondents (Zikmund 2000). Figure 3.9 shows the Likert scale with the assigned score of 1 to 5 to measure the interviewees” responses.
### 3.4.7 Sampling Design

“Surveys are useful and powerful for finding answers to research questions but they can do more harm than good, if not correctly targeted” (Cavana, Delahaye & Sekaran, 2000, p. 252). Accordingly, the researcher gave emphasis to the design of the survey sample. Full account was taken of the target population and the sampling method, in order to decide on the size and composition of the sample.

#### 3.4.7.1 The Target Population

Neuman (2006) defines the target population as „the concretely specified large group of many cases from which a researcher draws a sample and to which results from a sample are generalized“ (Neuman, 2006, p. 224).

The target population for this thesis comprised the key players associated with the internationalisation of Malaysian manufacturing SMEs namely:

- The manufacturing SMEs.
- The representatives of manufacturing associations.
- The Government agencies responsible for providing support to SMEs.
- The customers of Malaysian manufacturing SMEs including MNCs.
- Members of academia conducting research on the internationalisation of SMEs.
3.4.7.2 The Sampling Design

There are two types of sampling methods, namely, probability and non-probability sampling, and their choice consideration are set out in Table 3.5.

<table>
<thead>
<tr>
<th>Consideration</th>
<th>Design Type</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Probability</td>
</tr>
<tr>
<td>1. Cost</td>
<td>More costly</td>
</tr>
<tr>
<td>2. Accuracy</td>
<td>More accurate</td>
</tr>
<tr>
<td>3. Time</td>
<td>More time</td>
</tr>
<tr>
<td>4. Acceptance of results</td>
<td>Universal acceptance</td>
</tr>
<tr>
<td>5. Generalisability</td>
<td>Good</td>
</tr>
</tbody>
</table>

Source: Adapted from Davies (2005).

i) Probability Sampling

In probability sampling, the elements in the population have some known chance or probability of being selected as sample subjects. This method, with a large sample size, is used in research studies for results which can be generalised (Sekaran 2000). Probability sampling is more costly and difficult to administer. This sample design was therefore not used.

ii) Non-probability Sampling

In non-probability sampling, only specific elements in the population have the probability of being chosen as sample subjects. This implies that the findings cannot be confidently generalised to the population (Cavana, Delahaye & Sekaran 2000). There are two broad categories of non-probability sampling namely convenience and purposive sampling.

a) Convenience Sampling involves collecting information from members of the population who are conveniently available. As they can be chosen quickly and inexpensively, convenience samples are often used for qualitative research where time and money are critical constraints (Davies 2005).
b) Purposive Sampling permits the gathering of information pertinent to the research from specific target groups (Cavana, Delahaye & Sekaran 2000). Referred to as purposive sampling, they are generally inexpensive and the procedures take little time (Davies 2005). They are two major types of purposive sampling, i.e. judgment sampling and quota sampling.

- **Judgment Sampling** involves choosing subjects who are best suited to provide the information required. Special efforts are required to locate and secure participants from specific categories of people who can give the requisite information (Sekaran 2000). Judgement sampling may curtail the generalisability of the findings.

- **Quota Sampling** ensures that certain groups are adequately represented in the study through the assignment of a quota. Quota sampling is necessary when a sub-set of population is under-represented in the target population (Davies 2005). Quota sampling also restricts the generalisability of the findings.

### 3.4.8 Selected Sample Design, Size and Composition

Taking account of the advantages and disadvantages of the different types of non-probability sampling, the researcher adopted a combination of judgment and quota sampling. Judgment sampling was used as there were a limited numbers or categories of people with the required information for this research. Quota sampling permitted the researcher to include in the sample, representatives of the target population who were under-represented.

### 3.4.8.1 The Sample Size

Sample sizes, should be larger than 30 and less than 500, for most research (Roscoe 1975). Guided by this, 62 persons participated in the survey questionnaire. All of them were selected on the basis of the researcher’s personal judgment that they were best suited to present the views of the target population (Miller 1991).
The researcher acknowledges that the small sample size may not permit the findings of the research to be generalised. It should be explained that the owners of manufacturing SMEs are largely Chinese. For cultural and business reasons, they are generally reluctant to comment on issues they perceive as sensitive. Government officials also experience difficulties in expressing their candid views on Government policy issues. Furthermore, due to cost and other constraints, it was necessary to confine the survey to the Klang Valley.

Through the use of quota sampling, the respondents were categorised into four groups as shown in Figure 3.10.

**Figure 3.10 Composition of the Survey Sample**

<table>
<thead>
<tr>
<th>SMEs A</th>
<th>Government B</th>
<th>Experts C</th>
<th>SME Partners D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing SMEs in Klang Valley</td>
<td>Government Officials</td>
<td>Industry Experts Academics</td>
<td>Customers Marketing MNCs</td>
</tr>
<tr>
<td>22 (35%)</td>
<td>11 (18%)</td>
<td>10 (16%)</td>
<td>19 (31%) = 100%</td>
</tr>
</tbody>
</table>

Source: Developed for this Research.

The first Group, coded A, comprised 22 representatives from manufacturing SMEs. They included those that had internationalised their operations as well as those from export-ready SMEs. The selected interview participants held the positions of Director, General Manager, Technical Manager and Marketing Manager.
The second Group, coded B, were 11 persons who were either in Government service or recently retired. Those selected were knowledgeable about the Government’s support policies for manufacturing SMEs.

The third Group, coded C, comprised 10 industry experts and members of academia. The latter were from the local universities with special academic interests in the internationalisation of Malaysian manufacturing SMEs.

The final Group, coded D, had 19 participants. They were drawn from MNCs, the manufacturing associations and other bodies associated with SMEs. The Group included marketing experts and customers.

3.5 Goodness of the Measures for Reliability and Validity

The „goodness of measures attest to the reliability and validity of measures” (Sekaran, 2000, p. 420). Validity is concerned with whether the right concept is being measured, while reliability is concerned with stability and consistency in measurement. Lack of validity introduces a systematic error (bias), while lack of reliability introduces random error (Carmines & Zeller 1990).

The researcher endeavoured to meet the criteria for reliability and validity through the following measures. First, by combining qualitative and quantitative methods in a complementary manner. By combining and drawing on the strengths of both methods, the research design provided for more valid and reliable findings (Greene & Caracelli 1997).

The qualitative approach provided useful insights on internationalisation from the perspectives of Malaysian manufacturing SMEs. The quantitative design for the second stage of the research required the collection of value-free data. This controlled bias and permitted objectivity (Neuman 2006).

Second, by ensuring that all the items in the survey questionnaire covered the range of the research issues that were being measured. This satisfied the criteria for content validity (Kumar 2005).
Third, by pre-testing the survey questionnaire to ensure that the wordings of items in the questionnaire were coherent and consistently understood. This improved the reliability of the survey questionnaire (Kumar 2005).

Fourth, through the use of triangulation or multiple sources of data / evidence. This was achieved through the use of the expert panel for personal interviews, the focus group meeting and the questionnaire survey. As shown in Figure 3.11, this triangulation methodology also strengthened internal validity (Bowen 1996)

Figure 3.11 Strengthening Internal Validity by Triangulation


3.6 Data Analysis

As stated in Sub-Section 3.2.3, this research comprised two stages. The first stage, which was exploratory, required the collection of qualitative data. This was done through the personal interviewing of members of the expert panel and the focus group meeting. The second stage, descriptive in nature, relied on quantifiable data through the use of the survey questionnaire. The data analysis procedures for this research therefore comprised the analysis of both the qualitative data and the quantitative data.
3.6.1 Qualitative Data Analysis

Qualitative data are represented in the form of text or words. The overall purpose of analysing qualitative data is to understand the phenomenon being studied. The researcher therefore has to interpret what has occurred (Neuman 2006).

The data analysis activity for qualitative data commenced with detailed notes being taken during the personal interviews. The verbatim notes were then summarised in a methodical manner for identifying emerging themes or patterns.

The usual procedure is to tape record the discussion of a focus group meeting and for the researcher to produce a summary of the meeting (Ticehurst & Veal 2000). This was, however, not done given the inhibitions of some focus group members. The researcher therefore took detailed notes of the meeting to draw out key elements of the discussions that related to each of the research questions. The data analysis process comprised the following steps:

- The first was data reduction. This involved the process of condensing data through summarising and coding procedures (Healey & Rawlinson 1994).

- Second, was to code the collected data to make them manageable and to facilitate the identification of themes and categories.

- The third was data display. This involved the display of the reduced data in diagram and charts to facilitate the interpretation of the data.

- The fourth was the content analysis of the coded and displayed data in order to locate patterns (Patton 1990; Cavana, Delahaye & Sekaran 2000).

- The researcher then investigated themes between the categories and drew conclusions. They are presented in Chapters 4 and 5.
3.6.2 Quantitative Data Analysis

Quantitative data for this research was collected through the questionnaire survey with a Likert scale for attitude measurement. The data analysis comprised checking, editing, handling blank questionnaire, coding, categorizing, transcribing and data cleaning. The data was then keyed into the SPSS for Windows (version 16.1) for analysis. In line with Malhotra (1999) the data was:

- Edited. The questionnaires were reviewed to identify incomplete, inconsistent or ambiguous responses.

- Coded, by translating the collective data into codes for the purpose of computer analysis.

- Transcribed, by converting survey responses into a form that could be analysed by the computer.

- Cleaned, to check for consistency and treatment of the missing data.

Descriptive analysis techniques were then used and the outputs included:

- A Case Processing Summary.

- Frequency Tables.

- Group Percentage Cross Tabulation for each Statement.

- Comparison of Mean responses for each research proposition.

- Standard Deviation by Group for each research proposition.

- Group Responses for each Statement.
3.7 Ethical Considerations

In conducting business research, the researcher is required to address all moral and ethical issues (Hussey & Hussey 1997). Several ethical obligations are placed on the researcher, including their personal behaviour (Leedy 2001).

In academic research, there are, generally, three concerned parties: the researcher, the University and the respondent (subject). The interactions of each of these three parties identify a series of ethical questions (Zikmund, 2000, p. 72).

The approval of the SCU Ethics Committee was a prerequisite for the primary data collection exercise. This was necessary as the University had to comply with the provisions of the „National Statement on Ethical Conduct in Research Involving Humans”. This clearly sets out the nature and type of human research and includes surveys, interviews or focus groups (http://www.nhmrc.gov.au).

For the purpose of submitting an application to the SCU Ethics Committee, the researcher adhered closely to the University”s Guidelines, which stressed on:

i) Informed Consent – i.e., for participants of the focus group to sign a form stating that:

- Participation was voluntary.
- S(he) retained the right to withdraw even after agreeing in writing to participate.
- Grievances – if a respondent had a complaint against the researcher, s(he) could make a complaint to the University.

ii) The need for all voluntary participants to be fully informed on the purposes and all aspects of the intended research. To meet this requirement, the participants of the questionnaire survey and the focus group were provided with an Information Sheet, which:
- Outlined the research.
- Stated that privacy issues will be safeguarded. For this purpose, the information provided by the respondent would be kept confidential and not divulged to a third party other than the University. Furthermore, if a respondent wished to remain nameless, this would be respected and followed.
- Grievances – if a respondent had a complaint against the researcher, s(he) could make a complaint to the University.

All these points were detailed in the Informed Consent Forms which were signed by the participants in the focus group.

The Informed Consent Forms and the Information Sheets are attached as Appendices A, B and C.

The primary data collection exercise commenced after the receipt of the formal approval (ECN-08-017) by the SCU Ethics Committee.

3.8 Conclusion

This Chapter justified the use of a combined methodology and the research design. It rationalised a two-stage research; the first, exploratory and the second, descriptive in nature. It explained the procedures to collect primary data through an expert panel, a focus group and a questionnaire survey. Finally, it described the data analysis procedures and the measures taken to address ethical issues.

The next Chapter presents the analysis of the collected primary data.
Chapter 4: DATA ANALYSIS
CHAPTER 4 – DATA ANALYSIS

4.1 Introduction

The earlier Chapter detailed the preferred methodology, research design and the data collection instruments for this research. This Chapter analyses the primary data collected through three channels:

i) Personal interviews with the seven persons in the Expert Panel. It comprised an academic, a manufacturing industry association representative, two Governmental officials and three senior members from the manufacturing industries.

ii) A Focus Group meeting involving seven industry related participants. They comprised manufacturing entrepreneurs, Government officials, academics, marketing specialists and industry representatives.

iii) A Questionnaire Survey with 62 participants, categorised into four Groups:

• The first Group, coded A, comprised 22 participants. They represented the manufacturing SMEs that had either internationalised their operations or were export-ready.

• The second Group, coded B, had 11 persons associated with the Government’s support policies for manufacturing SMEs.

• The third Group, coded C, comprised 10 industry experts and members of academia.

• The final Group, coded D, had 19 participants. They were marketing experts from the MNCs and representatives from the manufacturing associations.

A combination of judgmental and quota sampling was used for the design and selection of the survey sample. The questionnaires were sent out in March 2008 to the identified
participants in the target groups. They were addressed to those holding the positions of Directors, General Managers, Technical Managers and Marketing Managers. The researcher also obtained individual responses from the participants in Groups B and C.

As shown in the Case Processing Summary, presented as Table 4.1, there was a 100% response rate since all the 62 participants responded to all 12 Statements. This was due to the repeated reminders by the researcher to the participants; through phone calls and emails. Furthermore, all the survey participants were located in Kuala Lumpur or in neighbouring areas and these facilitated contacts.

<table>
<thead>
<tr>
<th>Table 4.1 Case Processing Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cases</td>
</tr>
<tr>
<td>Valid</td>
</tr>
<tr>
<td>N</td>
</tr>
<tr>
<td>PRO1 * Group</td>
</tr>
<tr>
<td>PRO2 * Group</td>
</tr>
<tr>
<td>PRO3 * Group</td>
</tr>
<tr>
<td>PRO4 * Group</td>
</tr>
</tbody>
</table>

Source: Analysis of Survey Data.

The Likert-scale was used to measure the Questionnaire Survey responses. The assigned scores were 1 for „Strongly Disagree”; 2 for „Disagree”; 3 for „Uncertain”; 4 for „Agree” and 5 for „Strongly Agree”.

The resulting quantifiable data were analysed, in line with the procedures for descriptive statistics outlined in the previous Chapter. The SPSS software, used for this purpose, yielded useful outputs which are discussed in the body of this Chapter.

The researcher took measures to ensure that the findings were valid and reliable. An important one was the use of the methodological triangulation involving the Expert Panel, the Focus Group and the Questionnaire Survey. This served to improve the trustworthiness of the findings for each research proposition.
4.1.1 Structure of Chapter 4

This Chapter has seven Sections, as shown in Figure 4.1.

Sections 4.2 – 4.5 presents the results of the data analysis that relate to each of the 12 Statements and the four research propositions. The analysis of each of them involved four steps:

i) The content analysis of the qualitative data obtained from the personal interviews of the Expert Panel in respect of the three Statements, relating to each research proposition.
ii) The content analysis of the Focus Group meeting in respect of the three Statements, relating to each research proposition. This together with the analysis of the personal interviews enabled the researcher to identify emerging themes and patterns as a basis for drawing conclusions.

iii) The analysis of the Questionnaire Survey responses. This involved two stages. First, a critical examination of the Group Percentage Cross Tabulation for each of the three Statements that related to each research proposition. Second, the overall analysis of all the three Statements that related to each research proposition. This was achieved by interpreting:

- Group Percentage Cross Tabulation for each Statement.
- Comparison of Mean responses for each research proposition.
- Standard Deviation by Groups for each research proposition.
- Group responses to the Statements for each research proposition.

iv) The final step was the testing of each research proposition. For this purpose, the researcher took full account of the views expressed by the Expert Panel, the Focus Group and the Survey participants.

Section 4.6 is devoted to „unplanned data” or the collected data that fell outside the scope of all the four research propositions. The final Section 4.7 provides the Chapter’s conclusions.

4.2 Research Proposition 1: Malaysian Manufacturing SMEs Attach Importance to Internationalisation Strategies for Gaining Sustainable Global Competitive Advantage

As discussed in Sub-Section 3.4.5.4, Statements 1 – 3 in the Survey Questionnaire related to Research Proposition 1. Presented below, these also formed the basis of the discussion topics for the Expert Panel interviews and the Focus Group meeting.
Statement 1 (S1): Malaysian manufacturing SMEs are not aware of the competitive challenges due to the AFTA and the WTO.

Statement 2 (S2): Malaysian manufacturing SMEs know that they cannot depend on the Malaysian market for their growth because of foreign competitors.

Statement 3 (S3): Malaysian manufacturing SMEs are implementing the necessary internationalisation policies for moving into new overseas markets.

4.2.1 Analysis of the Expert Panel Interviews on Research Proposition 1

All the three Statements relating to Research Proposition 1 were addressed in the individual personal interviews with each member of the Expert Panel. The diverse membership of the Panel, with representatives from the Malaysian Government, the industry associations, academia, marketing experts and industry experts, yielded a wide range of perspectives and views. There was however general agreement that:

- The liberalising domestic market no longer offered protection for Malaysian SMEs. This required Malaysian SMEs to venture into the global market-place for continued business survival.

- The emergence of AFTA, the WTO and the FTAs compelled Malaysian manufacturing SMEs to produce high quality goods that were in global demand. Furthermore, their costs had to be lower than those of their regional competitors.

- The situation necessitated Malaysian manufacturing SMEs to increase productivity and improve their R&D capabilities for new product development.

Panel members were however divided on some issues and these are summarised as follows:
i)  *Internationalisation strategies.*

One expert commented that Malaysian manufacturing SMEs should devote more resources to the formulation of internationalisation strategies and not be over-dependent on Governmental support. This was necessary as only Malaysian SMEs with sound and well planned strategies would be able to successfully venture into regional and global markets.

ii)  *Emerging challenges.*

Some commented that some Malaysian manufacturing SMEs are not aware of the challenges emerging from the implementation of the WTO and AFTA. They were therefore unprepared to address the arising competitive threats. These were largely posed by Malaysia’s regional rivals, including the PRC, India, South Korea, Thailand and Vietnam.

iii)  *Early Warning System.*

It was necessary for the Government to institute an “early warning system” to alert and forewarn Malaysian SMEs of the downsides of market liberalisation.

*Findings:* Taking fully into account the expressed views, it was evident that the Expert Panel was divided on whether the Malaysian manufacturing SMEs attach importance to internationalisation strategies for gaining sustainable global competitive advantage.

### 4.2.2 The Focus Group’s Views on Research Proposition 1

The Focus Group meeting addressed the research issues, as reflected by the three Statements. The diverse composition of the Group’s participants resulted in candid exchanges of views on the related issues. However, they generally agreed that:

i)  The forces of globalisation are creating both opportunities and challenges for Malaysian manufacturing SMEs. The removal or lowering of tariff and non-tariff barriers enables them to move into previously protected new external markets. In parallel, the lowering of Malaysian protectionist barriers permits the entry of low
cost production regional rivals; thus increasing the competition for Malaysian manufacturing SMEs.

ii) The situation required Malaysian manufacturing SMEs to move into international markets.

iii) Malaysian manufacturing SMEs can secure sustainable competitive advantage by formulating internationalisation strategies for timely implementation by highly qualified management and professional staff.

Some members expressed the view that Malaysian manufacturing SMEs should think in global terms rather than confine their operations to the domestic market. Accordingly, the following suggestions were made:

i) The Government, in partnership with the SME bodies and associations, should conduct training seminars for manufacturing SMEs to familiarise them on the implications of the WTO and AFTA on their operations.

ii) The training seminars should also stress that a move into international markets was no longer an option but one of necessity.

iii) The seminars should be conducted in Cantonese as well as in Bahasa Malaysia since the former is the dialect which was largely understood and used in the manufacturing SMEs.

iv) Malaysian manufacturing SMEs should emphasise on moving up the value chain to make them better placed to enter into global supply chains and international networks.

v) Internationalisation should become a cornerstone of corporate strategies. Equally, SMEs must adopt a global outlook as it is a prerequisite for gaining global market access.
vi) SMEs must invest in professional management staff with international experience. This is necessary for formulating and implementing appropriate internationalisation strategies.

*Findings:* Members of the Focus Group had mixed views as to whether Malaysian manufacturing SMEs were aware of the challenges emerging from regional and global trade liberalisation. Largely for this reason, the Focus Group members were divided as to whether Malaysian manufacturing SMEs emphasise on strategies to venture into international markets.

### 4.2.3 Survey Responses

The analysis of the survey responses, for each of the three Statements related to Research Proposition 1, are set out in Tables 4.2 – 4.4 and summarised below.

**S1: Malaysian manufacturing SMEs are not aware of the competitive challenges due to the AFTA and the WTO.**

As shown in Table 4.2:

- Only 37% of the total respondents agreed that Malaysian manufacturing SMEs have not been alerted to the competitive pressures emerging from the WTO and AFTA.

- A relatively larger number or 40% of the respondents, largely from Group A, the SMEs, and Group B, the Governmental group, disagreed with the Statement.

- However, 23% of the respondents, spread across all four Groups, adopted a neutral position.

*Outcome:* Overall, the findings indicated no concrete agreement or disagreement to this Research Statement.
Table 4.2 **Statement 1: Group Percentage Cross Tabulation**

<table>
<thead>
<tr>
<th>Responses</th>
<th>Group</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A</td>
<td>B</td>
</tr>
<tr>
<td>1</td>
<td>0 (0)</td>
<td>0 (0)</td>
</tr>
<tr>
<td>2</td>
<td>36 (8)</td>
<td>64 (7)</td>
</tr>
<tr>
<td>3</td>
<td>23 (5)</td>
<td>18 (2)</td>
</tr>
<tr>
<td>4</td>
<td>32 (7)</td>
<td>18 (2)</td>
</tr>
<tr>
<td>5</td>
<td>9 (2)</td>
<td>0 (0)</td>
</tr>
<tr>
<td>Total</td>
<td>100 (22)</td>
<td>100 (11)</td>
</tr>
</tbody>
</table>

Source: Developed from Survey Data.

**Likert-scale:** Strongly Disagree (1); Disagree (2); Uncertain (3); Agree (4); Strongly Agree (5)

**Note:** Figures in parenthesis denotes count.

**S2: Malaysian manufacturing SMEs know that they cannot depend on the Malaysian market for their growth because of foreign competitors.**

As shown in Table 4.3:

- A large majority or 72% of the survey respondents agreed that Malaysian manufacturing SMEs could no longer rely on the domestic market because of the entry of new foreign competitors.

- Members of Group C, comprising the industry experts, registered their strongest support (80%) for the Statement.

- Of the 12 who disagreed, six were from the SMEs.

- Five participants adopted a neutral position. Only one of them was from Group A, which comprised the SMEs with the others from Group B, comprising the Government officials.

**Outcome:** The results indicated strong support for this Statement.
Table 4.3 **Statement 2: Group Percentage Cross Tabulation**

<table>
<thead>
<tr>
<th>Responses</th>
<th>Group</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td>0 (0)</td>
<td>9 (1)</td>
<td>0 (0)</td>
<td>0 (0)</td>
<td>2 (1)</td>
</tr>
<tr>
<td>2</td>
<td></td>
<td>27 (6)</td>
<td>18 (2)</td>
<td>10 (1)</td>
<td>11 (2)</td>
<td>18 (11)</td>
</tr>
<tr>
<td>3</td>
<td></td>
<td>4 (1)</td>
<td>9 (1)</td>
<td>10 (1)</td>
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<td>8 (5)</td>
</tr>
<tr>
<td>4</td>
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<td>54 (6)</td>
<td>80 (8)</td>
<td>68 (13)</td>
<td>64 (40)</td>
</tr>
<tr>
<td>5</td>
<td></td>
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<td>9 (1)</td>
<td>0 (0)</td>
<td>11 (2)</td>
<td>8 (5)</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>100 (22)</td>
<td>100 (11)</td>
<td>100 (10)</td>
<td>100 (19)</td>
<td>100 (62)</td>
</tr>
</tbody>
</table>

Source: Developed from Survey Data.

**Likert-scale:** Strongly Disagree (1); Disagree (2); Uncertain (3); Agree (4); Strongly Agree (5)

**Note:** Figures in parenthesis denotes count.

**S3: Malaysian manufacturing SMEs are implementing the necessary internationalisation policies for moving into new overseas markets.**

As shown in Table 4.4:

- A simple majority of 53% supported this Statement. Significantly, 33 participants who expressed their support, 10 of them were SMEs from Group A.

- Of the remaining respondents, 24% adopted contrasting positions. Since they were largely from Group A, the representatives of SMEs, the researcher took the position that members of Group A were divided on the matter.

- However, 23% of the respondents remained neutral. They included six from Group D comprising the MNCs / marketing associations.

**Outcome:** The Statement „Malaysian manufacturing SMEs are implementing the necessary internationalisation policies for moving into new overseas markets” found support with a simple majority.
Table 4.4  **Statement 3: Group Percentage Cross Tabulation**

<table>
<thead>
<tr>
<th>Responses</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0 (0)</td>
<td>0 (0)</td>
<td>10 (1)</td>
<td>0 (0)</td>
<td>1 (1)</td>
</tr>
<tr>
<td>2</td>
<td>32 (7)</td>
<td>18 (2)</td>
<td>20 (2)</td>
<td>16 (3)</td>
<td>23 (14)</td>
</tr>
<tr>
<td>3</td>
<td>23 (5)</td>
<td>18 (2)</td>
<td>10 (1)</td>
<td>32 (6)</td>
<td>23 (14)</td>
</tr>
<tr>
<td>4</td>
<td>36 (8)</td>
<td>46 (5)</td>
<td>60 (6)</td>
<td>52 (10)</td>
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<tr>
<td>5</td>
<td>9 (2)</td>
<td>18 (2)</td>
<td>0 (0)</td>
<td>0 (0)</td>
<td>6 (4)</td>
</tr>
<tr>
<td>Total</td>
<td>100 (22)</td>
<td>100 (11)</td>
<td>100 (10)</td>
<td>100 (19)</td>
<td>100 (62)</td>
</tr>
</tbody>
</table>

Source: Developed from Survey Data.

**Likert-scale:** Strongly Disagree (1); Disagree (2); Uncertain (3); Agree (4); Strongly Agree (5)

**Note:** Figures in parenthesis denotes count.

### 4.2.4 Survey Data Analysis

The comparison of Mean responses and the Standard Deviation by Groups to Research Proposition 1 are shown in Figure 4.2 and Table 4.5 respectively. The Mean rating for all Groups, at 3.27, reflects modest agreement for the Proposition. The Mean responses ranged from a low of 3.13 for Group C, the industry experts, to a high of 3.49 for Group D, comprising the MNCs / the marketing associations.

Figure 4.2  **Comparison of Mean Responses to Research Proposition 1**

Source: Developed from Survey Data.
Groups B and A, had standard deviations of 0.67 and 0.61 respectively, indicating less agreement among members in these Groups. The analysis suggested that the MNCs / the marketing associations, in Group D, had less disagreement among themselves on the whole.

Table 4.5 **Standard Deviation by Groups to Research Proposition 1**

<table>
<thead>
<tr>
<th>Group</th>
<th>Mean</th>
<th>N</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>3.2879</td>
<td>22</td>
<td>.61114</td>
</tr>
<tr>
<td>B</td>
<td>3.1818</td>
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<tr>
<td>C</td>
<td>3.1333</td>
<td>10</td>
<td>.50185</td>
</tr>
<tr>
<td>D</td>
<td>3.4912</td>
<td>19</td>
<td>.39076</td>
</tr>
<tr>
<td>Total</td>
<td>3.3065</td>
<td>62</td>
<td>.55087</td>
</tr>
</tbody>
</table>

Source: Developed from Survey Data.

Table 4.6 sets out the Groups’ responses to the three Statements for Research Proposition 1. It shows that although there was modest overall support for this proposition, discernable patterns emerged from the Group responses. Of significance, were the views expressed by the SMEs in Group A, the Government representatives in Group B and the MNCs in Group D. The salient responses are listed below:

- Group D agreed with Statement 1 that Malaysian manufacturing SMEs are not aware of the competitive challenges due to the AFTA and the WTO. However, Group B expressed strong disagreement for this Statement.

- Group D members strongly agreed (79%) with Statement 2 that Malaysian manufacturing SMEs recognised the emerging threats posed by the entry of foreign competitors into the domestic market. There was reduced support from the members of Group A (68%) and Group B (63%).

- Group B agreed with Statement 3 that Malaysian manufacturing SMEs are implementing the necessary internationalising strategies for penetrating new overseas markets. However, only 45% of the members of Group A shared this view.
Findings: The Questionnaire Survey suggested support for Research Proposition 1.

Table 4.6 Group Responses to the Statements for Research Proposition 1

<table>
<thead>
<tr>
<th>Statement</th>
<th>Disagree (%)</th>
<th>Agree (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A B C D</td>
<td>A B C D</td>
</tr>
<tr>
<td>1</td>
<td>36.4 63.6 60 21.1</td>
<td>40.9 18.2 20 52.6</td>
</tr>
<tr>
<td>2</td>
<td>27.3 27.3 10 10.5</td>
<td>68.2 63.6 80 78.9</td>
</tr>
<tr>
<td>3</td>
<td>31.8 18.2 30 15.8</td>
<td>45.5 63.7 60 52.6</td>
</tr>
</tbody>
</table>

Source: Developed from Survey Data.

Note: percentages do not add up to 100 due to responses to “Uncertain”

4.2.5 Testing of Research Proposition 1

The results of the Questionnaire Survey suggested modest support for Research Proposition 1. This contrasted with its rejection by members of the Expert Panel. Since, the Focus Group members were uncertain about their support for this proposition, Research Proposition 1 is deemed to be rejected.

4.3 Research Proposition 2: Malaysian Manufacturing SMEs Give Emphasis to CSR Practices to Meet the Requirements of International Customers and Investors.

As discussed in Sub-Section 3.4.5.4, Statements 4 – 6 in the Survey Questionnaire related to Research Proposition 2. Presented below, these also formed the basis of the discussion topics for the Expert Panel interviews and the Focus Group meeting.

Statement 4 (S4): Malaysian manufacturing SMEs recognise the importance of CSR practices for successfully penetrating international markets.

Statement 5 (S5): Malaysian manufacturing SMEs are not aware of the business benefits of implementing CSR practices.

Statement 6 (S6): Malaysian manufacturing SMEs require exposure and training on introducing strategic CSR practices for sustainable competitive advantage.
4.3.1 Analysis of the Expert Panel Interviews on Research Proposition 2

The Expert Panel acknowledged the growing importance of CSR practices. Some underlined the need for SMEs to emphasise on good governance, environmentally friendly technologies, employees’ welfare and marketing products that are safe for consumers.

They also agreed that despite the importance accorded to CSR practices by international consumers and investors alike, this was not the case with the majority of Malaysian manufacturing SMEs. However, the larger manufacturing enterprises tend to give back to their own ethnic communities by way of philanthropy. A cited example was the support extended by the Chinese manufacturing community to the University Tunku Abdul Rahman, which is the only Malaysian Chinese-owned private University in Malaysia.

The Panel also agreed that training should be given to the export-ready manufacturing enterprises on CSR practices which aim at:

- Engaging a diversified workforce, in terms of ethnicity and gender. This is necessary in Malaysia which has a multiracial population and a large number of women in the labour force.

- Measures to protect the environment by using disposable packaging, avoiding dumping of chemical wastes, adopting energy conservation methods and only using suppliers that adopt environmental protection practices.

- Giving more emphasis to enhance employee well-being. This could be by way of on-going training, gender, equity and welfare benefits.

- Understanding the ethical and CSR practices of the MNCs that participate in global supply chains. This was considered necessary as a MNC partner to a SME could be adversely affected should its SME supplier fail to comply with international CSR standards.
The content analysis of the personal interviews revealed general agreement for the need to introduce new policies to increase SMEs’ awareness on the importance of CSR practices. This could be by way of educating and training Malaysian manufacturing SMEs on globally accepted CSR practices.

Several of the participants stressed the need for incentives to be provided to the manufacturing SMEs to encourage them to adopt environmentally friendly technology. In keeping with emerging trends, they should also be encouraged to undertake CSR audits.

4.3.2 The Focus Group’s Views on Research Proposition 2

The Focus Group participants agreed that the Malaysian manufacturing SMEs could face problems if they give little regard to CSR practices. To reinforce the point, some members cited the problems faced by Mattel, the large toy maker, because of the defective products that it made under license in the PRC. The global protests, led to a sharp fall in Mattel’s share prices and the fears about the „Made in China” label.

It was observed that Malaysian SMEs could face similar problems if they disregard CSR practices. Should these eventuate, the „Made in Malaysia” label could also conjure negative consumer perceptions with disastrous consequences for Malaysian manufacturers.

There was general agreement that Malaysian manufacturing SMEs:

i) Should be alerted to the importance of CSR practices by international investors and consumers. This requires them to adhere to CSR business practices for their continual business survival.

ii) Being producers of intermediate goods for the global supply chain could face opposition from consumer groups and the regulatory bodies, if they are unable to comply with CSR requirements of the export destination country. Two other pertinent examples were cited.
First, the recent advertisement of the Malaysian Palm Oil Growers Association in the United Kingdom, which claimed that the Malaysian palm oil industry followed environmentally sound and sustainable practices. This was rejected by the British regulatory authorities on the grounds that the claim was untrue. The advertisement was withdrawn with possible adverse international consumer perceptions of Malaysian palm oil.

Second, the new EU’s requirement that timber exporting countries must produce certificates to confirm that timber and timber products are legally sourced. This „proof of legality” stipulation, which stemmed from environmental pressure groups, clearly implies that Malaysian timber exports to the EU must be CSR compliant.

iii) Will benefit from training programmes that increase awareness of the importance of CSR. The Silver Book on CSR practices, now being used by GLCs, could be modified and adapted to meet the requirements of manufacturing SMEs. Local universities should also include subject matter on CSR in their curricula in business, accounting, marketing, branding, corporate communications and strategic management courses. This would help to instil a greater sense of awareness of the importance of CSR.

Outcome: It was evident from the discussions that the Focus Group recognised the importance of CSR practices to Malaysian manufacturing SMEs. The members were however divided as to whether the Malaysian manufacturing SMEs were adopting CSR practices to meet the requirements of international customers and investors.

4.3.3 Survey Responses

The analysis of the Survey responses, for each of the three Statements that relate to Research Proposition 2, are set out in Tables 4.7 – 4.9 below.

S4: Malaysian manufacturing SMEs recognise the importance of CSR practices for successfully penetrating international markets.
As shown in Table 4.7:

- Only 39% of the 62 participants supported this Statement and an almost similar number (38%) disagreed. Of those who supported the Statement, the largest number was from Group B, consisting the Government officials.

- Significantly, 53% of the members of Group D led by the MNCs disagreed.

- However, 45% of those in Group A, comprising the SMEs, considered CSR practices as being important for successfully penetrating overseas markets.

**Outcome:** The survey respondents were divided on the need for Malaysian manufacturing SMEs to adopt CSR practices as part of their strategies to penetrate overseas markets.

### Table 4.7 Statement 4: Group Percentage Cross Tabulation

<table>
<thead>
<tr>
<th>Responses</th>
<th>Group</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>Total</th>
</tr>
</thead>
<tbody>
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<td>1</td>
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<td></td>
<td>23 (5)</td>
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<td>20 (2)</td>
<td>21 (4)</td>
<td>23 (14)</td>
</tr>
<tr>
<td>4</td>
<td></td>
<td>36 (8)</td>
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<td>30 (3)</td>
<td>26 (5)</td>
<td>36 (22)</td>
</tr>
<tr>
<td>5</td>
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<td>9 (2)</td>
<td>0 (0)</td>
<td>0 (0)</td>
<td>0 (0)</td>
<td>3 (2)</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>100 (22)</td>
<td>100 (11)</td>
<td>100 (10)</td>
<td>100 (19)</td>
<td>100 (62)</td>
</tr>
</tbody>
</table>

*Source: Developed from Survey Data.*

*Likert-scale:* Strongly Disagree (1); Disagree (2); Uncertain (3); Agree (4); Strongly Agree (5)

*Note:* Figures in parenthesis denotes count.

**S5: Malaysian manufacturing SMEs are not aware of the business benefits of implementing CSR practices**

As shown in Table 4.8:

- Only 40%, largely from Group D, which included the MNCs, Group A, the SMEs, and Group C, the industry experts, were fully supportive of the Statement.
• 37% of the respondents disagreed with this Statement.

• Significantly, 63% of the members of Group B comprising the Government servants were not in agreement with the Statement.

• The remaining 23% of the respondents remained neutral.

Outcome: The responses to Statement 5 were generally in line with the responses to Statement 4; probably due to their inter-relationship.

Table 4.8 Statement 5: Group Percentage Cross Tabulation

<table>
<thead>
<tr>
<th>Responses</th>
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</tr>
</thead>
<tbody>
<tr>
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<td>A</td>
<td>B</td>
</tr>
<tr>
<td>1</td>
<td>4 (1)</td>
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</tr>
<tr>
<td>Total</td>
<td>100 (22)</td>
<td>100 (11)</td>
</tr>
</tbody>
</table>

Source: Developed from Survey Data.

Likert-scale: Strongly Disagree (1); Disagree (2); Uncertain (3); Agree (4); Strongly Agree (5)

Note: Figures in parenthesis denotes count.

S6: Malaysian manufacturing SMEs require exposure and training on CSR practices introducing strategic CSR practices for sustainable competitive advantage.

As shown in Table 4.9:

• There was majority support (74%) for this Statement. This was strongest from the Government servants (82%) in Group B and the MNCs / manufacturing associations in Group D (79%).
• Only 13% of the survey participants believed otherwise. It is noteworthy that 4 of them were SMEs representatives in Group A.

• Only 13% of the participants took a neutral position.

Outcome: There was wide support from all the four Groups that Malaysian manufacturing SMEs require exposure and training on CSR practices.

Table 4.9 Statement 6: Group Percentage Cross Tabulation

<table>
<thead>
<tr>
<th>Responses</th>
<th>Group</th>
</tr>
</thead>
<tbody>
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<td></td>
<td>A</td>
</tr>
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<td>1</td>
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<td>2</td>
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<td>5</td>
<td>18 (4)</td>
</tr>
<tr>
<td>Total</td>
<td>100 (22)</td>
</tr>
</tbody>
</table>

Source: Developed from Survey Data.

Likert-scale: Strongly Disagree (1); Disagree (2); Uncertain (3); Agree (4); Strongly Agree (5)

Note: Figures in parenthesis denotes count.

4.3.4 Survey Data Analysis

The comparison of Mean responses and the Standard Deviation by Group to Research Proposition 2 are shown in Figure 4.3 and Table 4.10 respectively.

It is significant that all four Groups registered Mean responses ranging from 3.00 to 3.17 or a total Mean rating of 3.15. This implies that overall the respondents were uncertain although members of Group A, the SMEs, and Group B, adopted positions between neutral and agree. Notwithstanding, for the purpose of this research, the findings imply a situation of „no concrete agreement“ or „disagreement“ to Research Proposition 2.
However, the Standard Deviations indicated disagreements within Groups, with the highest level of disagreement in Group A, the SMEs (0.53) and the lowest level in Group D, the MNCs / the manufacturing associations (0.40). The findings may also indicate that from an overall perspective, the survey participants did not hold firm views or positions on CSR practices.

Table 4.10 **Standard Deviation by Groups to Research Proposition 2**

<table>
<thead>
<tr>
<th>Group</th>
<th>Mean</th>
<th>N</th>
<th>Std. Deviation</th>
</tr>
</thead>
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<tr>
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</tr>
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<td>B</td>
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<td>.45616</td>
</tr>
<tr>
<td>C</td>
<td>3.0000</td>
<td>10</td>
<td>.52116</td>
</tr>
<tr>
<td>D</td>
<td>3.1053</td>
<td>19</td>
<td>.40143</td>
</tr>
<tr>
<td>Total</td>
<td>3.1183</td>
<td>62</td>
<td>.47178</td>
</tr>
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</table>

Source: Analysis of Survey Data.

Table 4.11 sets out the Groups’ responses to the three Statements for Research Proposition 2. It shows that although the responses were generally neutral, with no concrete agreement or disagreement, there were significant patterns emerging from the Group responses. These are reflected below:
• Group D disagreed with Statement 4 that Malaysian manufacturing SMEs recognise the importance of CSR practices for internationalisation. However, almost 55% of Group B agreed with this Statement.

• A majority of the participants in Group A (64%) disagreed with Statement 5 that Malaysian manufacturing SMEs are not aware of the business benefits of CSR practices. Significantly, only 27% of Group B shared this view.

• There was much support for Statement 6 from all the four Groups that Malaysian manufacturing SMEs require exposure and training on CSR practices for sustainable competitive advantage.

Findings: The survey results indicated a neutral position with no concrete agreement or disagreement.

Table 4.11  Group Responses to the Statements for Research Proposition 2

<table>
<thead>
<tr>
<th>Statement</th>
<th>Disagree (%)</th>
<th>Agree (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A</td>
<td>B</td>
</tr>
<tr>
<td>4</td>
<td>31.8</td>
<td>18.2</td>
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<td>5</td>
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</tr>
<tr>
<td>6</td>
<td>18.2</td>
<td>18.2</td>
</tr>
</tbody>
</table>

Source: Analysis of Survey Data.

Note: percentages do not add up to 100 due to responses to “Uncertain”

4.3.5 Testing of Research Proposition 2

The survey results reflected neutral responses with no concrete agreement or disagreement to this research proposition. However, the Expert Panel and the Focus Group adopted clearer positions on the three Statements. While being fully supportive of the importance of CSR practices, they highlighted inadequate policy support and the lack of appropriate programmes to promote CSR practices by Malaysian manufacturing SMEs. Consequently, the SMEs were generally unaware of the importance of CSR practices to meet the requirements of international consumers and investors. Accordingly, the researcher rejected Research Proposition 2.
4.4 Research Proposition 3: The Malaysian Government has Comprehensive and Effective Policies and Programmes to Support the Internationalisation Strategies of All Malaysian Manufacturing SMEs

As discussed in Sub-Section 3.4.5.4, Statements 7 – 9 in the Survey Questionnaire related to Research Proposition 3. Presented below, these also formed the basis of the discussion topics for the Expert Panel interviews and the Focus Group meeting.

**Statement 7 (S7)**: The Malaysian Government’s SMEs support policies are not discriminatory and benefit all manufacturing SMEs.

**Statement 8 (S8)**: Malaysian manufacturing SMEs cannot rely on the Government to provide the required support for internationalising their operations.

**Statement 9 (S9)**: The Government agencies decide on applications for financial and other support from Malaysian SMEs in a speedy and efficient manner.

4.4.1 Analysis of the Expert Panel Interviews on Research Proposition 3

All the three Statements that relate to Research Proposition 3 were addressed during the interviews with each member of the Expert Panel. Its diverse membership, with representatives from the Malaysian Government, the industry associations, academia, marketing experts and industry experts, revealed a wide range of perspectives and views. There was, however, general agreement that:

- The Malaysian Government is mindful of the critical need for the Malaysian manufacturing sector to enhance its international competitiveness.

- Malaysian policy statements made by the Prime Minister, senior Ministers and civil servants clearly indicate the Government’s commitment to supporting SMEs.
• There are a wide range of programmes and incentives to encourage SMEs to move up the value added chain for competing more effectively in the new global economy.

Members of the Panel were, however, divided on some issues and these are summarised as follows:

i) **Target beneficiaries.**
   The Government representatives maintained that all SMEs are eligible for support, regardless of the race of the business owners. They also stated that it was incumbent on business owners to learn more about the various schemes and programmes offered by the Government agencies and to submit applications if they require assistance.

ii) **Approval Processes.**
   Members of the Expert Panel expressed concerns that the application processes were cumbersome, not “applicant-friendly” and time-consuming. They also had doubts on the transparency of the approval processes for loans and grants applications. Expressing the view that the delivery systems were poor, they suggested better coordination among the Government agencies responsible for the delivery of SME programmes.

*Findings:* Based on the views expressed by the members of the Expert Panel, the researcher considered that the Panel had mixed views on Research Proposition 3.

### 4.4.2 The Focus Group’s Views on Research Proposition 3

The research issues, as reflected by all the three Statements related to Research Proposition 3, were addressed at the Focus Group meeting. The diverse nature of the Focus Group participants resulted in different views being expressed on each of the three Statements that were presented as the discussion topics.

However, there was a consensus among the participants that:
• The Government fully acknowledges the importance of the manufacturing SMEs in the Malaysian economy as they are major contributors to export earnings and employment for increasing GDP.

• The manufacturing SMEs warrant support from the Government as they face competitive pressures from low cost regional rivals, in both the domestic and international markets.

• The Governments of Thailand, Singapore, the PRC, South Korea and India, are actively supporting their SMEs. Their support programmes are aimed at assisting SMEs to extend their overseas trade, move up the value chain, increase access to credit and forge industrial and investment linkages.

• The Malaysian Government has a comprehensive package of support programmes and measures to assist SMEs. These include advisory services, financial support, R&D support, technology enhancement and export market development.

During the meeting, some members stated that:

• The industry associations could play a more meaningful and effective role in the approval and delivery of grant and loan assistance schemes. The Government should therefore consult more closely with them in formulating programmes to assist SMEs.

• It was critical for manufacturing SMEs to adopt a global orientation, with appropriate internationalisation strategies. This requires them to hire competent professional staff, regardless of race, who are capable of undertaking global market research to determine emerging needs and forge international market linkages to enter into the global supply chain. They should also become more self-reliant and not be fully dependant on Government support for venturing into overseas markets.
There was a misguided perception that Government assistance was limited to certain sections of Malaysian society. The Government should therefore emphasise and publicise the numerous support programmes that are available to all Malaysian SMEs.

The available assistance should be targeted at the exporting and export-ready manufacturing SMEs which require support to retain competitiveness in the global marketplace.

Loan and grant application processes should be simplified and where possible, standardised among all the Ministries and agencies responsible for SMEs support. In parallel, the manufacturing SMEs should also make efforts to understand grant/loan application procedures; in particular the stipulated criteria for the application and receipt of such assistance.

**Findings:** Focus Group members agreed that the Malaysian Government had a comprehensive policy package. However, its effectiveness and efficiency were eroded by the delivery mechanisms. Accordingly, the researcher concluded that the Focus Group members were divided on Research Proposition 3.

### 4.4.3 Survey Responses

The analysis of the survey responses, for each of the three Statements that relate to Research Proposition 3, are set out in Tables 4.12 – 4.14 below.

**S7: The Malaysian Government’s SMEs support policies are not discriminatory and benefit all manufacturing SMEs.**

The analysis, as shown in Table 4.12, revealed that:

- Only 36% of the respondents, largely from Groups A, C and D supported the Statement. The exception was Group B, comprising the Governmental staff. A
majority or 55% in this Group maintained that the Government’s SME policies were not discriminatory and were of benefit to all manufacturing SMEs.

- Those who disagreed with the Statement were even lower at 29%. They included seven SMEs representatives and six MNC representatives.

- More than a third of the participants (36%) adopted a neutral position.

- A large number or 41% of the SMEs in Group A, preferred to remain neutral.

**Outcome:** The analysis indicated that the participants were undecided on whether the Malaysian Government’s SMEs support policies benefited all manufacturing SMEs.

<table>
<thead>
<tr>
<th>Responses</th>
<th>Group</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>Total</th>
</tr>
</thead>
<tbody>
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<tr>
<td><strong>Total</strong></td>
<td></td>
<td>100 (22)</td>
<td>100 (11)</td>
<td>100 (10)</td>
<td>100 (19)</td>
<td>100 (62)</td>
</tr>
</tbody>
</table>

Source: Developed from Survey Data.

**Likert-scale:** Strongly Disagree (1); Disagree (2); Uncertain (3); Agree (4); Strongly Agree (5)

**Note:** Figures in parenthesis denotes count.

**S8: Malaysian manufacturing SMEs cannot rely on the Government to provide the required support for internationalising their operations.**

The analysis, as shown in Table 4.13 below, revealed that:
A majority or 76% of all respondents concurred that it was necessary for Malaysian manufacturing SMEs to internationalise their operations without relying on support from the Malaysian Government.

A broadly similar number (73%) of the SMEs in Group A and 64% of the members of Group B, comprising Government staff, shared similar views.

Only 10% of the respondents adopted a neutral position.

Outcome: The analysis indicated that Malaysian manufacturing SMEs should not rely solely on the Government’s support for internationalising their operations.

Table 4.13 Statement 8: Group Percentage Cross Tabulation

<table>
<thead>
<tr>
<th>Responses</th>
<th>A</th>
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<th>C</th>
<th>D</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td>2</td>
<td>14 (3)</td>
<td>18 (2)</td>
<td>10 (1)</td>
<td>16 (3)</td>
<td>14 (9)</td>
</tr>
<tr>
<td>3</td>
<td>14 (3)</td>
<td>18 (2)</td>
<td>10 (1)</td>
<td>0 (0)</td>
<td>10 (6)</td>
</tr>
<tr>
<td>4</td>
<td>46 (10)</td>
<td>64 (7)</td>
<td>70 (7)</td>
<td>79 (15)</td>
<td>63 (39)</td>
</tr>
<tr>
<td>5</td>
<td>27 (6)</td>
<td>0 (0)</td>
<td>10 (1)</td>
<td>5 (1)</td>
<td>13 (8)</td>
</tr>
<tr>
<td>Total</td>
<td>100 (22)</td>
<td>100 (11)</td>
<td>100 (10)</td>
<td>100 (19)</td>
<td>100 (62)</td>
</tr>
</tbody>
</table>

Source: Developed from Survey Data.

Likert-scale: Strongly Disagree (1); Disagree (2); Uncertain (3); Agree (4); Strongly Agree (5)

Note: Figures in parenthesis denotes count.

S9: The Government agencies decide on applications for financial and other support from Malaysian SMEs in a speedy and efficient manner

The analysis, as shown in Table 4.14, revealed that:

Only 35% of the respondents supported the Statement. Significantly, more than half (55%) of the Government staff in Group B agreed that the Government
agencies handled applications for financial support in a speedy and efficient manner.

- An almost equal number disagreed. These included a large number or 41% of the SMEs in Group A, who expressed their disagreement.

- A relatively high number of participants (29%) adopted a neutral position.

**Outcome:** The analysis revealed a mixed reaction by the survey respondents. They were undecided on whether SME applications to the Government for financial and other support were addressed in a speedy and efficient manner.

**Table 4.14 Statement 9: Group Percentage Cross Tabulation**

<table>
<thead>
<tr>
<th>Responses</th>
<th>Group</th>
<th></th>
<th></th>
<th></th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>A</td>
<td>18 (4)</td>
<td>0 (0)</td>
<td>10 (1)</td>
<td>5 (1)</td>
</tr>
<tr>
<td></td>
<td>B</td>
<td>23 (5)</td>
<td>0 (0)</td>
<td>10 (1)</td>
<td>53 (10)</td>
</tr>
<tr>
<td></td>
<td>C</td>
<td>22 (5)</td>
<td>45 (5)</td>
<td>60 (6)</td>
<td>11 (2)</td>
</tr>
<tr>
<td></td>
<td>D</td>
<td>23 (5)</td>
<td>46 (5)</td>
<td>10 (1)</td>
<td>26 (5)</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>14 (3)</td>
<td>9 (1)</td>
<td>10 (1)</td>
<td>5 (1)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>100 (22)</td>
<td>100 (11)</td>
<td>100 (10)</td>
<td>100 (19)</td>
</tr>
</tbody>
</table>

*Source: Developed from Survey Data.*

**Likert-scale:** Strongly Disagree (1); Disagree (2); Uncertain (3); Agree (4); Strongly Agree (5)

**Note:** Figures in parenthesis denotes count.

### 4.4.4 Survey Data Analysis

The comparison of Mean responses is shown in Figure 4.4. The Standard Deviation by Groups to Research Proposition 3 is shown Table 4.15.

The Mean rating for all Groups at 3.54 shows general support for Research Proposition 3 by all Groups. This is also evidenced by the Means ranging from 3.44 for Group A, the SMEs, to 3.63 for Group C, comprising the industry experts and academics.
Figure 4.4  **Comparison of Mean Responses to Research Proposition 3**

![Comparison of Mean Responses to Research Proposition 3](image)

Source: Developed from Survey Data.

However, the Standard Deviations indicated disagreements within Groups. The highest level of disagreement was in Group B, the SMEs (0.58) and the lowest level within Group D, the MNCs / the manufacturing associations (0.40).

Table 4.15  **Standard Deviation by Groups to Research Proposition 3**

<table>
<thead>
<tr>
<th>Group</th>
<th>Mean</th>
<th>N</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>3.4394</td>
<td>22</td>
<td>.42893</td>
</tr>
<tr>
<td>B</td>
<td>3.5455</td>
<td>11</td>
<td>.58258</td>
</tr>
<tr>
<td>C</td>
<td>3.6333</td>
<td>10</td>
<td>.50796</td>
</tr>
<tr>
<td>D</td>
<td>3.5439</td>
<td>19</td>
<td>.40385</td>
</tr>
<tr>
<td>Total</td>
<td>3.5215</td>
<td>62</td>
<td>.45816</td>
</tr>
</tbody>
</table>

Source: Developed from Survey Data.

Table 4.16 sets out the Groups” responses to the three Statements for Research Proposition 3. It shows that from an overall perspective, the survey participants did not have strong views or positions on the Government’s support packages for Malaysian manufacturing SMEs. However, there were discernable patterns emerging from the Group responses as evidenced by:

- Almost 55% of the members of Group D expressing their agreement for Statement 7 as compared to only 27% of the SMEs in Group A who gave their support.
A large majority of the members in Groups A, B and C expressed their support for Statement 8.

However, in respect of Statement 9, more than half of the members of Group D (58%) and 41% of Group A expressed their disagreement. In contrast, 55% of Group B, the Government officials supported the Statement.

**Findings:** The survey data analysis indicates acceptance of Research Proposition 3.

Table 4.16  **Group Responses to the Statements for Research Proposition 3**

<table>
<thead>
<tr>
<th>Statement</th>
<th>Disagree (%)</th>
<th>Agree (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A</td>
<td>B</td>
</tr>
<tr>
<td>7</td>
<td>31.8</td>
<td>18.2</td>
</tr>
<tr>
<td>8</td>
<td>13.6</td>
<td>18.2</td>
</tr>
<tr>
<td>9</td>
<td>40.9</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: Analysis of Survey Data.

Note: percentages do not add up to 100 due to responses to “Uncertain”

**4.4.5 Testing of Research Proposition 3**

The Expert Panel and the Focus Group were divided on the Statements relating to Research Proposition 3. They agreed that the Government had introduced a comprehensive policy package to support manufacturing SMEs. They however had some misgivings about the delivery systems and called for more effective coordination of the measures and programmes for assisting all Malaysian manufacturing SMEs. Since all the four Groups in the Survey expressed support for Research Proposition 3, the researcher took the position that it was accepted.

**4.5 Research Proposition 4: Malaysian SMEs Face Challenges for Adopting and Implementing Appropriate Internationalisation Strategies to Address Global Competitive Challenges**

As discussed in Sub-Section 3.4.5.4, Statements 10 – 12 in the Survey Questionnaire related to Research Proposition 4. Presented below, these also formed the basis of the discussion topics for the Expert Panel interviews and the Focus Group meeting.
Statement 10 (S10): Malaysian manufacturing SMEs have the management, planning and marketing capabilities for internationalising their operations.

Statement 11 (S11): Malaysian manufacturing SMEs have the required research and development (R&D) and innovative capabilities for producing and exporting world-class products at low costs.

Statement 12 (S12): Malaysian manufacturing SMEs do not have access to the financing required for internationalising their operations.

4.5.1 Analysis of the Expert Panel Interviews on Research Proposition 4

All the three Statements that related to Research Proposition 4 were addressed in the interviews with each member of the Expert Panel. Its diverse membership, comprising representatives from the Malaysian Government, the industry associations, academia, marketing experts and industry experts, resulted in a wide range of perspectives and views. There was however general agreement that Malaysian manufacturing SMEs:

- Faced a wide array of challenges emerging from the implementation of AFTA and the WTO agreements.
- Must adopt new strategies for competing in the new economy phenomenon. They suggested emphasis on knowledge management practices and e-business which are changing the business processes. This also required them to institute professional management structures with staff who are competent to manage the complex and dynamic external environment.
- Should increase their investments in R&D for producing quality goods, developing their own brand names and improving the packaging and labelling of their products.

The Panel members were, however, divided on some issues and these are summarised as follows:
i) Access to capital.
Currently, the Government’s financial support schemes were only available to SMEs with a turnover of less than RM25 million. This was considered to be a limiting factor as it excludes exporting SMEs to benefit from the Government’s assistance programmes to upgrade their technology and expand their global outreach.

ii) Increasing technological capabilities.
While this was necessary for competing effectively in global markets, SMEs were experiencing skills shortages, particularly for R&D activities and for managing international operations. This underlined the urgent need for a reform of the public higher education system to produce more knowledge workers.

iii) Increasing Productivity.
The manufacturing SMEs are impacted by sharp increases in labour and energy costs. These are propelling production costs and reducing profit margins. Productivity must therefore be increased to offset higher production costs.

Findings: Taking all the views into account, the Expert Panel supported Research Proposition 4 that the Malaysian manufacturing SMEs face challenges for adopting and implementing appropriate internationalisation strategies.

4.5.2 The Focus Group’s Views on Research Proposition 4

The research issues, as reflected by all three Statements 10 – 12 that related to Research Proposition 4, were addressed at the Focus Group meeting. The diverse nature of the Focus Group participants resulted in a candid exchange of views on each of the three Statements that were presented as discussion topics.

There was a consensus among the participants that Malaysian manufacturing SMEs:

i) Face severe competitive pressures in both the national and international markets due to the liberalising global market-place. It was therefore necessary to
formulate new and innovative strategies to gain footholds in the global supply chain.

ii) Must emphasise on change management in terms of new business processes. It is also necessary for SMEs to develop a research culture for innovation, product adaptation and to move up the value chain.

Some members stated that Malaysian manufacturing SMEs:

i) Must acquire international business skills and master global business languages to remain successful in the global market-place, in particular, English, which is the language of the global business world.

ii) Should increase their investments in employee training and the hiring of high calibre managers and researchers. These imply that they should move away from the general practice of confining senior positions to family members.

iii) Must take full advantage of the available Government support schemes for technology upgrading and penetrating new export markets. In this regard, they should play pro-active roles and offer suggestions to the Government agencies on the new policies and measures for overcoming the emerging threats.

Findings: The Focus Group members acknowledged that the Malaysian manufacturing SMEs were confronted by a number of challenges; largely emerging from the liberalisation of world trade. This required them to strengthen their international management capabilities; enhance their capacity for R&D for producing world class products, secure better access to financing for technological upgrading and emphasise on new export market penetration. Accordingly, the Focus Group accepted Research Proposition 4.

4.5.3 Survey Responses

The analyses of the survey responses, for each of these three Statements, are set out in Tables 4.17 – 4.19 below.
**S10: Malaysian manufacturing SMEs have the management, planning and marketing capabilities for internationalising their operations**

The responses to this Statement, as shown in Table 4.17, revealed that:

- Only 37% of the respondents expressed their agreement to the Statement. However, 47% of the members of Group D, the MNCs / the manufacturing association, believed that the SMEs had adequate management, planning and marketing capabilities for successfully internationalising their operations.

- It is noteworthy that an almost equal number of respondents (36%) disagreed with the Statement. This view was shared by 50% of the industry experts and academics in Group C.

- A relatively high number of participants (27%) adopted a neutral position.

*Outcome:* A mixed reaction by the survey respondents to this Statement.

Table 4.17 **Statement 10: Group Percentage Cross Tabulation**

<table>
<thead>
<tr>
<th>Responses</th>
<th>Group</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td>0 (0)</td>
<td>9 (1)</td>
<td>10 (1)</td>
<td>11 (2)</td>
<td>7 (4)</td>
</tr>
<tr>
<td>2</td>
<td></td>
<td>36 (8)</td>
<td>9 (1)</td>
<td>40 (4)</td>
<td>26 (5)</td>
<td>29 (18)</td>
</tr>
<tr>
<td>3</td>
<td></td>
<td>32 (7)</td>
<td>27 (3)</td>
<td>40 (4)</td>
<td>16 (3)</td>
<td>27 (17)</td>
</tr>
<tr>
<td>4</td>
<td></td>
<td>27 (6)</td>
<td>46 (5)</td>
<td>10 (1)</td>
<td>42 (8)</td>
<td>32 (2)</td>
</tr>
<tr>
<td>5</td>
<td></td>
<td>5 (1)</td>
<td>9 (1)</td>
<td>0 (0)</td>
<td>5 (1)</td>
<td>5 (3)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>100 (22)</td>
<td>100 (11)</td>
<td>100 (10)</td>
<td>100 (19)</td>
<td>100 (62)</td>
</tr>
</tbody>
</table>

Source: Developed from Survey Data.

**Likert-scale:** Strongly Disagree (1); Disagree (2); Uncertain (3); Agree (4); Strongly Agree (5)

**Note:** Figures in parenthesis denotes count.
S11: Malaysian manufacturing SMEs have the required research and development (R&D) and innovative capabilities for producing and exporting world-class products at low costs

The responses to this Statement, as shown in Table 4.18, revealed that:

- Almost half or 46% of the respondents disagreed with the Statement. The highest level of disagreement (70%) was registered by the industry experts and academics in Group C. This was followed by the MNCs, in Group D, with 47%.
- Only 38% of the 62 survey respondents expressed their support. Significantly, a majority or 64% of the respondents in Group B, the Government staff, indicated that Malaysian manufacturing SMEs have the R&D and innovative capabilities for producing and exporting world class products at low costs. However, only 36% of the member of Group A, the SMEs, shared this view.

Outcome: Overall, the responses to this Statement were mixed.

Table 4.18 Statement 11: Group Percentage Cross Tabulation

<table>
<thead>
<tr>
<th>Responses</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0 (0)</td>
<td>9 (1)</td>
<td>20 (2)</td>
<td>5 (1)</td>
<td>7 (4)</td>
</tr>
<tr>
<td>2</td>
<td>37 (8)</td>
<td>27 (3)</td>
<td>50 (5)</td>
<td>42 (8)</td>
<td>39 (24)</td>
</tr>
<tr>
<td>3</td>
<td>27 (6)</td>
<td>0 (0)</td>
<td>0 (0)</td>
<td>21 (4)</td>
<td>16 (10)</td>
</tr>
<tr>
<td>4</td>
<td>27 (6)</td>
<td>37 (4)</td>
<td>20 (2)</td>
<td>27 (5)</td>
<td>27 (17)</td>
</tr>
<tr>
<td>5</td>
<td>9 (2)</td>
<td>27(3)</td>
<td>10 (1)</td>
<td>5 (1)</td>
<td>11 (7)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100 (22)</td>
<td>100 (11)</td>
<td>100 (10)</td>
<td>100 (19)</td>
<td>100 (62)</td>
</tr>
</tbody>
</table>

Source: Developed from Survey Data.

Likert-scale: Strongly Disagree (1); Disagree (2); Uncertain (3); Agree (4); Strongly Agree (5)
Note: Figures in parenthesis denotes count.

S12: Malaysian manufacturing SMEs do not have access to the financing required for internationalising their operations

The responses to this Statement, as shown in Table 4.19, revealed that:
• Only 37% of all respondents agreed with the Statement.

• An even smaller number of respondents (27%) expressed their disagreement.

• A significant number of respondents (36%) adopted a neutral position on the issue of access to financing. This was largely due to 46% of the SMEs in Group A not taking a position. The Government servants, in Group B, were also divided on the issue, with 36% expressing disagreement and 27% concurring with the Statement.

**Outcome:** Overall, the responses to this Statement were neutral.

Table 4.19 **Statement 12: Group Percentage Cross Tabulation**

<table>
<thead>
<tr>
<th>Responses</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>4</td>
<td>9</td>
<td>0</td>
<td>0</td>
<td>3 (2)</td>
</tr>
<tr>
<td>2</td>
<td>9</td>
<td>27</td>
<td>40</td>
<td>32</td>
<td>24 (15)</td>
</tr>
<tr>
<td>3</td>
<td>46</td>
<td>37</td>
<td>20</td>
<td>32</td>
<td>36 (22)</td>
</tr>
<tr>
<td>4</td>
<td>23</td>
<td>18</td>
<td>30</td>
<td>36</td>
<td>27 (17)</td>
</tr>
<tr>
<td>5</td>
<td>18</td>
<td>9</td>
<td>10</td>
<td>0</td>
<td>10 (6)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100 (22)</td>
<td>100 (11)</td>
<td>100 (10)</td>
<td>100 (19)</td>
<td>100 (62)</td>
</tr>
</tbody>
</table>

Source: Developed from Survey Data.

**Likert-scale:** Strongly Disagree (1); Disagree (2); Uncertain (3); Agree (4); Strongly Agree (5)

**Note:** Figures in parenthesis denotes count.

### 4.5.4 Survey Data Analysis

The comparison of Mean responses is shown in Figure 4.5. The Standard Deviation by Group to Research Proposition 4 is shown in Table 4.20.

The Mean rating for all Groups is only 3.01. This indicates that the survey respondents generally adopted a neutral position. However, there were wide variations between Groups. The industry experts in Group C appeared to disagree (2.88) with the Statement as compared to the Government officials in Group B (3.48) who were more supportive of the Statement.
The overall Mean, however, masked the high levels of disagreement among members in each Group since the overall Standard Deviation was 0.88. This was particularly so with Group D, the MNCs / manufacturing associations, which registered a Standard Deviation of 0.97.

Table 4.20 **Standard Deviation by Groups to Research Proposition 4**

<table>
<thead>
<tr>
<th>Group</th>
<th>Mean</th>
<th>N</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>3.0000</td>
<td>22</td>
<td>.88491</td>
</tr>
<tr>
<td>B</td>
<td>3.4848</td>
<td>11</td>
<td>.82143</td>
</tr>
<tr>
<td>C</td>
<td>2.6667</td>
<td>10</td>
<td>.60858</td>
</tr>
<tr>
<td>D</td>
<td>2.8772</td>
<td>19</td>
<td>.97633</td>
</tr>
<tr>
<td>Total</td>
<td>2.9946</td>
<td>62</td>
<td>.88396</td>
</tr>
</tbody>
</table>

Table 4.21 sets out the Groups’ responses to the three Statements for Research Proposition 4. It shows that, although there was a mixed overall reaction for Research Proposition 4, there were discernable patterns emerging from the Group responses. Of significance, were the following:

- All the Groups, with the exception of Group B, the Government servants, disagreed with Statement 10 that Malaysian manufacturing SMEs have the management, planning and marketing capabilities for internationalising their operations.
• Members of Group B (64%), unlike those in the other Groups, expressed agreement on Statement 11 that Malaysian manufacturing SMEs have the required R&D and innovative capabilities for producing and exporting world-class products at low costs. Significantly, 70% of the members of Group C, comprising academics and industry experts, disagreed with the Statement.

• All four Groups expressed their disagreement with Statement 12 that Malaysian manufacturing SMEs do not have access to the financing required for internationalising their operations. It is noteworthy that 41% of the members of Group A and 40% of the members of Group C, expressed their agreement.

Findings: The analysis suggested that the survey respondents were neutral with no concrete agreement or disagreement on Research Proposition 4.

<table>
<thead>
<tr>
<th>Statement</th>
<th>Disagree (%)</th>
<th>Agree (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A</td>
<td>B</td>
</tr>
<tr>
<td>10</td>
<td>36.4</td>
<td>18.2</td>
</tr>
<tr>
<td>11</td>
<td>36.4</td>
<td>36.4</td>
</tr>
<tr>
<td>12</td>
<td>13.6</td>
<td>36.4</td>
</tr>
</tbody>
</table>

Source: Analysis of Survey Data.

Note: percentages do not add up to 100 due to responses to “Uncertain”

4.5.5 Testing of Research Proposition 4

Members of the Expert Panel were in general agreement with Research Proposition 4 that Malaysian manufacturing SMEs face several challenges that impede the implementation of appropriate internationalisation strategies. This was reinforced by the views expressed at the Focus Group meeting. However, the survey findings revealed that overall the respondents had taken a neutral position.

Taking full account of the Personal Interviews, the perspectives of the Focus Group and the results of the Questionnaire Survey analysis, the researcher accepted Research Proposition 4.
4.6 Unplanned Data

Unplanned data refers to the pertinent views and observations of members of the Expert Panel and the Focus Group that were not included as discussion items. The unplanned data which emerged during the research related to the following:

i) *Rising energy costs*

The personal interviews and the Focus Group meetings were conducted in late March 2008. Concerns were expressed that rising petroleum prices, averaging USD115 per barrel, could force the Government to reduce the petroleum subsidy which amounted to USD35 billion annually at this price level. Any reduction in the petroleum subsidy would result in a parallel increase of retail petroleum prices. The manufacturing SMEs therefore face the prospect of higher production costs and corresponding increases of their export prices. As this will reduce their competitiveness, two possible remedies were suggested.

First, for the manufacturing SMEs to use fuel efficient technologies. Their ability to do so would depend on the Government providing financial support for the purchase of such technology.

Second, the Government devising special arrangements to offset the high energy costs. One option was for the Government to introduce a preferential tariff rate for the manufacturing SMEs similar to that extended to certain occupational groups in the Malaysian agricultural sector.

It is noteworthy that at the time of finalising this study and writing this research report, the Government had been forced to reduce its petroleum subsidy. Consequently, retail petroleum prices have increased sharply. The Consumer Price Index also rose by almost 14% over the two month period, May and June 2008, and the Producer Price Index is also forecasted to rise in tandem. In order to reduce the hardships faced by SMEs, the Government has announced that increased financial support would be given to SMEs that have been hard hit by higher energy costs (The New Straits Times 27 July 2008).
ii) \textit{The business and investment environment}

A representative of an SME commented that the results of the national and state elections held on 8 March, 2008, could have an adverse impact on the foreign investment climate in Malaysia. This was attributed to the Barisan Nasional (BN), the ruling coalition, losing its 2/3 majority and control of five States. These included Penang, Selangor and Kedah, which were the favoured destinations of foreign investors, in particular, the MNCs in the E&E industry. This was disconcerting as several export oriented manufacturing SMEs were vendors to the MNCs. Any outward move by the MNCs to other countries would therefore impact on the SMEs.

iii) \textit{The global economic situation}

One academic predicted a global economic slowdown on the grounds that the sub-prime mortgage crisis and the high cost of oil could result in an economic recession in the USA. This could shrink domestic demand in the world’s largest trading nation. Since Malaysian manufacturing SMEs rely heavily on the US market, they could be adversely affected. Furthermore, Malaysia’s regional rivals, in particular, the PRC, Singapore and South Korea, were also dependent on the USA market. This could lead to a “price war” with Malaysian manufacturing SMEs losing out in the process.

iv) \textit{The appreciating Malaysian Ringgit (RM)}

Three members of the Expert Panel made reference to this issue. The lifting of the exchange controls by the Government had resulted in the Malaysian Ringgit being appreciated from RM3.78 to the USD to a high of RM3.13. As a consequence, Malaysian products were becoming more expensive.

v) \textit{Liberalising the domestic market}

A member of the Expert Panel highlighted the statement made by the newly appointed Malaysian Minister of Domestic Trade and Consumer Affairs on 24 March 2008 that the Government would consider opening the domestic market to foreign competitors on the grounds that this would provide for a better pricing system. This was a clear indication that the Malaysian SMEs could no longer take shelter from the tariff walls that protect the domestic market.
vi) *Rising costs of production inputs*

Some members of the Focus Group referred to the PRC’s rapid economic and industrial growth which made the country a leading importer of raw materials. This has pushed up the global prices of cement, steel and rice to an all time high. The resulting high prices in Malaysia have created inflationary pressures with matching demands for higher wages. Malaysian SMEs therefore have to contend with higher wage bills and higher prices for the inputs required for their production processes. This could lead to higher prices for the manufactured products which would erode their competitive positioning.

**4.7 Conclusion**

This Chapter analysed the collected primary data to test the four research propositions. Content analysis procedures were used for the views expressed by the Expert Panel and the Focus Group. Descriptive statistics were used to analyse the quantifiable data obtained from the Questionnaire Survey. The findings were supplemented by unplanned data on pertinent information which fell outside the scope of the research propositions.

The next Chapter examines the conclusions for each research proposition and the addressal of the research problem. It also details the implications of the findings on theory, policies and practice.
Chapter 5: CONCLUSION and IMPLICATIONS
CHAPTER 5 – CONCLUSION AND IMPLICATIONS

5.1 Introduction

This Chapter presents the findings of this research. It commences with an overview of the discussions in each of the preceding Chapters of this thesis.

Chapter 1 introduced the research problem „What Are the Critical Factors for the Successful Internationalisation of Malaysian Manufacturing SMEs?” The Chapter justified the conduct of the research on the grounds that while it was of significant relevance to the business community, the Government authorities and academia, there was limited prior research on the related issues. Furthermore, the research findings could contribute to policy formulation by the Government agencies and provide useful guidance for Malaysian manufacturing SMEs that are moving into international markets.

The Chapter then provided an overview of the research design. This included an outline of the selected research approach, the data collection techniques and the procedures used to analyse the collected data and address ethical issues.

Finally, the Chapter discussed the definitions adopted for the research; presented the outline of the thesis and set out the limitations of the research.

The second Chapter developed the theoretical foundations for this research. This emerged from a literature review of the research issues related to the parent and immediate disciplines of the research topic. The review identified significant gaps in the body of knowledge on the export development practices of Malaysian manufacturing SMEs. These permitted the development of the research questions and the four research propositions tested by this research. They were:

Research Proposition 1 Malaysian manufacturing SMEs attach importance to internationalisation strategies for gaining sustainable global competitive advantage.
Research Proposition 2  Malaysian manufacturing SMEs give emphasis to CSR practices to meet the requirements of international customers and investors.

Research Proposition 3  The Malaysian Government has comprehensive and effective policies and programmes to support the internationalisation strategies of all Malaysian manufacturing SMEs.

Research Proposition 4  Malaysian SMEs face challenges for adopting and implementing appropriate internationalisation strategies to address global competitive challenges.

Chapter 3 detailed the research methodology and the research design for the collection of qualitative and quantitative data to test the research propositions. Qualitative data was secured through two channels. First, personal interviews with a seven-person Expert Panel. Second, the conduct of a Focus Group meeting involving seven members drawn from the SMEs, Government agencies, the academic community, manufacturing industry associations and international marketing consultants. Both techniques allowed for the collection of rich descriptive data.

The Chapter then detailed the measures taken to collect quantitative data through the use of a Questionnaire Survey. The 12 selected questions were re-casted as Statements and included in the Questionnaire: three questions for each of the four research propositions.

Finally, the Chapter discussed the data analysis procedures and addressed the ethical issues associated with this research.

Chapter 4 presented the data analysis related to each of the 12 Statements and the four research propositions. This involved content analysis of the qualitative data obtained from the Expert Panel and the Focus Group meeting. This was followed by a description of the survey data analysis. The quantitative data was then displayed by way of tables and figures.
This final Chapter presents the conclusions drawn on the basis of the evidence presented at Chapter 4 and links this with the theories discussed in Chapter 2.

Accordingly, this Chapter has eight Sections as depicted in Figure 5.1.

Figure 5.1 Structure of Chapter 5

- 5.1 Introduction
- 5.2 Conclusions About Each Of The Research Propositions
- 5.3 Conclusions About The Research Problem
- 5.4 Theory Development
- 5.5 Implications For Policy And Practice
- 5.6 Limitations
- 5.7 Further Research
- 5.8 Conclusion

Source: Developed for this Research.
The conclusions drawn on each of the four research propositions are presented in Section 5.2. They take full account of the findings of the literature review and the primary data analysis in Chapter 4.

Guided by the outcomes, Section 5.3 addresses the research problem and draws on the qualitative findings that emerged from the research.

The research also underlined the need for the further development of theory. Accordingly, the implications for theory are discussed in Section 5.4.

This is followed in Section 5.5 with a discussion of the practical implications of this research. This is divided into two parts. First, the implications for policy formulation by the Malaysian Government authorities responsible for the growth and development of manufacturing SMEs. Second, the implications of the findings for practicing business managers in the manufacturing SMEs and the industry associations.

A number of limitations associated with this research were identified in Chapter 1. It also discussed a number of tactics to overcome these limitations. Section 5.6 covers the other limitations that became apparent during the research process.

Section 5.7 provides a synopsis of the opportunities for further research on issues related to the internationalisation of Malaysian manufacturing SMEs. These include the opportunities to conduct deductive or positivist research with the aim of generalising the results of this research. It also identifies opportunities for the replication of this research to other emerging economies.

The conclusion of this Chapter is set out in Section 5.8.

5.2 Conclusions About Each Research Proposition

This Section presents the conclusions drawn from the analysis of the evidence relating to each of the four research propositions. This was the first step for addressing the research problem which is detailed in the next Section.
5.2.1 Conclusions About Research Proposition 1

This Sub-Section summarises the findings emerging from the testing of Research Proposition 1 which was stated as „Malaysian manufacturing SMEs attach importance to internationalisation strategies for gaining sustainable global competitive advantage“. The discussion takes into account the findings of the data analysis presented in Chapter 4, relative to the literature reviewed in Chapter 2.

The literature review revealed that the Malaysian Government acknowledges the important role of manufacturing SMEs in terms of their contributions to export earnings and the long-term economic stability of the country. The review also suggested that the liberalising global environment would adversely impact on the competitiveness of manufacturing SMEs. Consequently, it was necessary for them to take advantage of the opportunities created by global trade liberalisation by moving into the international market arena.

However, the literature was relatively silent on whether the Malaysian manufacturing SMEs:

i) Were mindful of the challenges that they are likely to face with the advent of AFTA and the WTO.

ii) Should become more self-reliant and be less dependant on Government’s support for penetrating global markets.

iii) Were implementing appropriate marketing and corporate strategies for successfully moving into international markets.

Sub-Section 4.2.5 presented the findings emerging from the testing of Research Proposition 1 by the Expert Panel, the Focus Group and the Questionnaire Survey. Based on the resulting response patterns shown in Table 5.1, it can be concluded that:
i) Malaysian SMEs are generally not aware of the challenges and the opportunities that could emerge from the implementation of the WTO and the creation of AFTA. It appears that little publicity is being given to the implications of the liberalising trade environment. The situation therefore requires both the Government and the industry associations to disseminate information on the WTO, AFTA and FTAs to all SMEs. SMEs should also benefit from consultancy support for addressing the emerging challenges.

Table 5.1 Response Patterns to Research Proposition 1

<table>
<thead>
<tr>
<th>Issue</th>
<th>Literature Review</th>
<th>Expert Panel</th>
<th>Focus Group</th>
<th>Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td>Awareness AFTA/WTO implications</td>
<td>Unknown</td>
<td>Concurred</td>
<td>Concurred</td>
<td>Divided</td>
</tr>
<tr>
<td>Entry of foreign competitors into domestic market</td>
<td>Known</td>
<td>Concurred</td>
<td>Concurred</td>
<td>Concurred</td>
</tr>
<tr>
<td>Appropriate internationalisation policies</td>
<td>Unknown</td>
<td>Divided</td>
<td>Concurred</td>
<td>Concurred</td>
</tr>
</tbody>
</table>

Source: Developed for this Research.

ii) Manufacturing SMEs should not solely rely on the Government for formulating and implementing internationalisation strategies. Although the Government has a wide range of export support schemes, it is necessary for the SMEs to become more self-reliant and to use their own resources to venture abroad.

iii) Exporting Malaysian manufacturing SMEs are generally adopting appropriate internationalisation strategies. It is significant that members of the Expert Group were divided on this issue. Taking this into account, it would be realistic to adopt the position that some export orientated manufacturing SMEs have yet to formulate appropriate strategies for successful internationalising their operations. This could be due to either ignorance or the paucity of competent and knowledgeable strategic
planners with a global orientation. The situation may therefore warrant special assistance programmes by the Government and/or the industry associations for the crafting of internationalisation strategies.

5.2.2 Conclusions About Research Proposition 2

This Sub-Section summarises the findings emerging from the testing of Research Proposition 2. This was stated as „Malaysian manufacturing SMEs give emphasis to CSR practices to meet the requirements of international customers and investors”. The discussion takes into account the findings of the data analysis presented in Chapter 4, relative to the literature reviewed in Chapter 2.

The literature review revealed that CSR practices are now gaining increased attention in not only the developed countries but also in several emerging economies. The drivers for this are the recognition that CSR practices contribute to achieving sustainable competitive advantage and enhancing the environment for foreign and domestic investment.

The review further revealed that the concept of CSR is also gaining acceptance by Malaysian business leaders, particularly, the senior management of GLCs. However, there was limited secondary data on how manufacturing SMEs view CSR and the extent of their CSR practices.

Sub-Section 4.3.5 presented the findings emerging from the testing of Research Proposition 2 by the Expert Panel, the Focus Group and the Questionnaire Survey. Based on the resulting response patterns shown in Table 5.2, it can be concluded that:

i) There was general agreement by members of the Expert Panel and the Focus Group that Malaysian SMEs are mindful of the need to meet CSR requirements in order to penetrate global markets. While the participants in the Questionnaire Survey were divided on this issue, there were significant disagreements within and between Groups. Significantly, more than half of the Government participants in Group B shared the views of the Expert Panel and the Focus Group as compared to only 45% of the SMEs participants in Group A. This indicates that the Government
officials were more conscious of the importance of CSR as compared to the SMEs participants.

Table 5.2 Response Patterns to Research Proposition 2

<table>
<thead>
<tr>
<th>Issue</th>
<th>Literature Review</th>
<th>Expert Panel</th>
<th>Focus Group</th>
<th>Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td>Importance of CSR practices</td>
<td>Unknown</td>
<td>Concurred</td>
<td>Concurred</td>
<td>Divided</td>
</tr>
<tr>
<td>Awareness of business benefits of CSR practices</td>
<td>Unknown</td>
<td>Concurred</td>
<td>Concurred</td>
<td>Divided</td>
</tr>
<tr>
<td>Exposure and training on CSR</td>
<td>Unknown</td>
<td>Concurred</td>
<td>Concurred</td>
<td>Concurred</td>
</tr>
</tbody>
</table>

Source: Developed for this Research.

ii) Malaysian manufacturing SMEs are generally unaware of the business benefits of implementing CSR practices. This is borne out by the views expressed by members of the Expert Panel and the Focus Group. This implies that there is a need for SMEs to be trained on the skills required for incorporating CSR practices in their business processes. However, the survey respondents were divided on this issue; probably due to the diverse composition of the survey group participants. It is again significant that the majority of the Government officials participating in the survey shared the views of the Expert Panel and the Focus Group.

iii) The Expert Panel, the Focus Group and the Questionnaire Survey participants were all in agreement that it was necessary for SMEs to adopt strategic CSR practices in order to achieve sustainable competitive advantage. It is noteworthy that 82% of the Government participants in the survey shared this view. These findings imply that appropriate training courses on CSR practices should be devised for SMEs with financial support to encourage their participation.
5.2.3 Conclusions About Research Proposition 3

This Sub-Section summarises the findings emerging from the testing of Research Proposition 3. This was stated as „The Malaysian Government has comprehensive and effective policies and programmes to support the internationalisation strategies of all Malaysian manufacturing SMEs”. The discussion takes into account the findings of the data analysis presented in Chapter 4, relative to the literature reviewed in Chapter 2.

The literature review revealed that:

i) The Malaysian Government has a comprehensive policy package to assist manufacturing SMEs with their export development efforts. These include financial support to undertake R&D for new product innovations; technology upgrading; participation in international trade fairs; branding; global market intelligence to identify new markets; training and consultancy support.

ii) Several Government bodies are involved in the delivery of the support programmes at the Federal Government and State Government levels. Some of the cited literature pointed to shortcomings in the administrative machinery for the delivery of the SMEs support programmes. There were also some suggestions that application procedures be standardised to the extent possible and that the delivery system be revamped to avoid duplication of efforts among the involved Government agencies.

iii) There was a perception that the Government”s support programmes were not available to all racial groups; thus implying that they were discriminatory in nature.

Sub-Section 4.4.5 presented the findings emerging from the testing of Research Proposition 3 by the Expert Panel, the Focus Group and the Questionnaire Survey.

The resulting response patterns shown in Table 5.3 clearly indicate a mixed reaction to the concerned issues by the Expert Panel, the Focus Group and the Questionnaire Survey respondents. This could be attributed to the diverse composition of all the research
respondents. As they were drawn from all races, they could have regarded the issues as being somewhat sensitive; hence, the large number who opted for neutral positions. Despite this limitation, it can be concluded, on the basis of the emergent patterns, that:

i) The Malaysian Government’s support policies for SMEs are aimed at assisting them to move up the value added chain to compete more effectively in the global economy. However, the SMEs, on their part, should change their mindsets and learn more about the various schemes and programmes offered by the Government in order to benefit from them.

Table 5.3 Response Patterns to Research Proposition 3

<table>
<thead>
<tr>
<th>Issue</th>
<th>Literature Review</th>
<th>Expert Panel</th>
<th>Focus Group</th>
<th>Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government SMEs support policies are not discriminatory</td>
<td>Unknown</td>
<td>Divided</td>
<td>Divided</td>
<td>Divided</td>
</tr>
<tr>
<td>SMEs cannot rely on Government support for internationalisation</td>
<td>Unknown</td>
<td>Divided</td>
<td>Divided</td>
<td>Concurred</td>
</tr>
<tr>
<td>Government agencies efficiently process financial support applications</td>
<td>Concurred</td>
<td>Divided</td>
<td>Divided</td>
<td>Divided</td>
</tr>
</tbody>
</table>

Source: Developed for this Research.

ii) Notwithstanding, it would be pragmatic for the manufacturing SMEs to also devote their own resources to support their internationalisation strategies and not be overly dependant on the Government’s support policies.

iii) The Government’s delivery systems require improvements. Furthermore, the process has to be „applicant-friendly” with minimal bureaucratic procedures to speed up the approval process.
iv) The Government should emphasise, through wide ranging publicity, that there are a large number of support programmes that are targeted at all SMEs, regardless of race. This would counter the criticism that the Government is discriminatory in its SMEs support policies.

5.2.4 Conclusions About Research Proposition 4

This Sub-Section summarises the findings emerging from the testing of Research Proposition 4. This was stated as „Malaysian SMEs face challenges for adopting and implementing appropriate internationalisation strategies to address global competitive challenges“. The discussion takes into account the findings of the data analysis presented in Chapter 4, relative to the literature reviewed in Chapter 2.

The literature review revealed that Malaysian manufacturing SMEs face a wide range of challenges for competing in global markets. The challenges include a better understanding of knowledge management and e-commerce processes which are changing the business processes. This requires the creation of professional management structures with high calibre staff to undertake R&D activities and to manage international operations. Furthermore, they should increase their investments for producing quality goods, develop their own brand names and improve the packaging of their products.

Sub-Section 4.5.5 presented the findings emerging from the testing of Research Proposition 4 by the Expert Panel, the Focus Group and the Questionnaire Survey. Based on the resulting response patterns shown in Table 5.4, it can be concluded that SMEs:

i) Do not appear to have the full range of the required capabilities to successfully internationalise their operations. A significant shortcoming is the shortage of high level professional staff with a global orientation and a good command of the languages used for international business negotiations; in particular, English and French. SMEs penetrating into Latin American markets should also be proficient in Portugese and Spanish.
ii) Should develop a research culture and increase their investments in R&D activities to produce quality goods with their own brand names. This is necessary for moving up the value chain.

<table>
<thead>
<tr>
<th>Issue</th>
<th>Literature Review</th>
<th>Expert Panel</th>
<th>Focus Group</th>
<th>Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td>SMEs are capable of internationalising their operations</td>
<td>Unknown</td>
<td>Concurred</td>
<td>Disagreed</td>
<td>Divided</td>
</tr>
<tr>
<td>SMEs have R&amp;D and capabilities for producing world class products</td>
<td>Unknown</td>
<td>Disagreed</td>
<td>Disagreed</td>
<td>Divided</td>
</tr>
<tr>
<td>SMEs do not have the financing for internationalisation</td>
<td>Unknown</td>
<td>Disagreed</td>
<td>Disagreed</td>
<td>Divided</td>
</tr>
</tbody>
</table>

Source: Developed for this Research.

iii) Should also increase their investments in employee training and emphasise on the open recruitment of staff, rather than solely rely on family members when filling positions.

iv) Should take full advantage of the available Government support schemes for technology upgrading, R&D activities and export market development. These include the financial support schemes that are available to all SMEs.

5.2.5 Summary

This Section examined the findings of the data analysis that were discussed in Chapter 4 and derived conclusions on each of the four research propositions. These were based on
the patterns that emerged from the analysis of the Expert Panel interviews, the Focus Group meeting and the Questionnaire Survey.

The next Section presents the conclusion on the research problem based on the analysis of the secondary and primary data collected for this research.

5.3 Conclusion About The Research Problem

This Section discusses the qualitative and quantitative findings about the research problem developed during the research (Perry 1995).

The literature review presented in Chapter 2 identified the key research issues and the pertinent theories associated with the parent and the immediate disciplines of the research. The review revealed that:

- The Malaysian Government is committed to Malaysia becoming a developed country by 2020. This is dependent on the growth and expansion of the manufacturing SMEs as they are major contributors to the economy in terms of employment and export earnings.

- The manufacturing SMEs face several challenges with the advent of the WTO, AFTA and the FTAs which are liberalising global trade. They therefore have to enhance their international competitiveness for increasing their export earnings and securing sustainable competitive advantage.

- The challenges included the need for the manufacturing SMEs to increase their investments in R&D for innovation, change their mindsets (Wong, 2007), hire professional staff, master global languages (Norton, 2007), adopt a global outlook, move up the value chain (Kanapathi, 2003) and gain new strategic positioning for penetrating international markets (Porter, 1996).

- Malaysian manufacturing SMEs targeting entry into new export markets must take account of CSR issues and regard them „as a source of opportunity, innovation and competitive advantage” (Porter & Kramer, 2006,p.1).
While the Government has introduced a comprehensive SMEs support package, there were doubts on the effectiveness of the delivery system.

Furthermore, the available literature was silent on several key variables that influence the successful internationalisation of SMEs. These gaps in the existing body of knowledge, as shown in Table 2.12 related to:

i) The extent of CSR practices by exporting Malaysian manufacturing SMEs.

ii) The degree of awareness by Malaysian manufacturing SMEs of the new economic phenomenon which is changing the manner in which international business is conducted.

iii) The emphasis given to internationalisation by Malaysian manufacturing SMEs.

iv) The adequacy of the policies and the support provided to the Malaysian manufacturing SMEs for meeting the competitive pressures emerging from a globalising world.

The research gaps also formed the basis for the development of the research questions and the four research propositions that were tested by this research. Qualitative and quantitative data were collected through the Expert Panel interviews, the Focus Group meetings and the Questionnaire Survey. The analysis of the collected data provided additional insights which showed that:

- Malaysian manufacturing SMEs do not appear to give importance to internationalisation strategies as they are generally unaware of the competitive challenges emerging from the WTO and AFTA.

- Malaysian manufacturing SMEs have yet to adopt CSR practices although these are important for penetrating export markets. This pinpoints the need for seminars and training programmes to familiarise SMEs on the business benefits of CSR practices.
• The Malaysian Government’s delivery system for SMEs support can be strengthened. This underlines the need for a critical review of the system. Furthermore loan and grant application processes could be further simplified and where possible standardised among all the Ministries and Agencies responsible for SMEs support.

• Malaysian manufacturing SMEs should develop their R&D management, planning and marketing capabilities for successfully internationalising their operations.

The combined findings of the literature review, the Expert Panel, the Focus Group and the Questionnaire Survey provided useful perspectives for bridging the research gaps.

These, as set out in Table 5.5 underlined the relevance of the research problem which was introduced in Section 1.2 as

„What are the critical factors for the successful internationalisation of Malaysian manufacturing SMEs?’

5.3.1 Summary

This Section summarises the findings of this research and matched them with the gaps in the existing body of knowledge which were identified by the literature review in Chapter 2. The analysis of the collected primary data, detailed in Chapter 4, generated new information which contribute to the bridging of the research gaps. This also enabled the reaffirmation of the relevance of the research problem which was stated as ‘What are the critical factors for the successful internationalisation of Malaysian manufacturing SMEs?’

The next Section discusses the implications of this research on theory development.
### Table 5.5 Summary Comparison of the Findings of the Literature Review and this Research

<table>
<thead>
<tr>
<th>Research Issues</th>
<th>Literature Coverage</th>
<th>Research Gaps</th>
<th>Research Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The Malaysian Economy</td>
<td>Yes</td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>• Internationalisation</td>
<td>Yes</td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>• International Entrepreneurship</td>
<td>Yes</td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>• CSR Theories / Practices</td>
<td>Yes</td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>• Malaysian Government’s CSR Policies</td>
<td>Yes</td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>• Malaysian SMEs’ CSR Practices</td>
<td>Inadequate</td>
<td>Exposure, Business</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Benefits</td>
<td></td>
</tr>
<tr>
<td>• Malaysian Government’s Participation in FTAs</td>
<td>Yes</td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>• A Global Outlook / New Economy</td>
<td>Inadequate</td>
<td>Mindsets, Strategies</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Linkages</td>
<td></td>
</tr>
<tr>
<td>• Value Chain</td>
<td>Inadequate</td>
<td>R&amp;D, Innovation,</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Branding</td>
<td></td>
</tr>
<tr>
<td>• Capital</td>
<td>Yes</td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>• SMEs’ Internationalisation</td>
<td>Inadequate</td>
<td>Strategies, Management,</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Structures</td>
<td></td>
</tr>
<tr>
<td>• Government Policies</td>
<td>Yes</td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>• Adequacy of Policies</td>
<td>Inadequate</td>
<td>Coverage, Target Groups,</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Implementation</td>
<td></td>
</tr>
</tbody>
</table>

Source: Developed from this Research.
5.4 Theory Development

This research, with its two-stage approach, was largely exploratory. Accordingly, its purposes included diagnosing new situations, exploring alternatives and assisting in the discovery of new ideas and theory building.

The literature review identified several theories relating to the internationalisation of SMEs. As discussed in Sub-Section 2.2.2, those of relevance to this research are the:

i) Stage models of internationalisation.

ii) Network approaches to internationalisation.

iii) The strategic management approach to internationalisation.

iv) The international entrepreneurship model.

The stages models, namely, the U-Model and the I-Model, explained the evolution of SMEs by way of the three generic stages; namely the „pre-export” stage; the „initial export” stage and the „advanced export” stage. However, the models only describe the process of change but not its dimensions or the different approaches used by firms in developing their activities (Miesenbock 1998; Andersson 2000).

The network theory has its strengths, in particular, the emphasis that it gives to the management of international relationships. However, it does not attach much importance to the strategic positioning and strategic thinking of entrepreneurs for the internationalisation process of SMEs.

These shortcomings are addressed by the RBV approach to industrialisation. However, as revealed by the literature review, research on the RBV approach is still limited. Its usefulness can therefore only be judged on the basis of further research on the linkage between internationalisation and RBV theory.
The increased competition, emerging from the forces of globalisation, led to a new phenomenon of international start-ups which challenge the early approaches to internationalisation. The more recent theories reflect the interface between entrepreneurship and international business research (McDougall & Oviatt 2000) and the connectivity between CSR and strategic planning to create new value propositions for firms (Porter & Kramer 2006).

This was addressed by the international entrepreneurship model developed by Antoncic and Hisrich (2000). It served to link the entrepreneur, the characteristics of the firm and the environment conditions, as contributory factors to the internationalisation of the firms (Ruzzier, Hisrich & Antoncic 2006).

The findings of this research reinforce the positions of Antoncic and Hisrich. However, as revealed by the findings of this research, there are also other important factors for the successful internationalisation of firms.

These are:

i) The necessity for entrepreneur driven SMEs to develop global mindsets since this is an essential first step for understanding and moving into international business relationships.

ii) The importance of reputational advantage as it enables a firm to be better placed for internationalisation. It is therefore a source of sustainable competitive advantage.

iii) Brand development as quality brands command price premiums. Good brands also remain in demand in the face of adverse competitive pressures.

iv) Integrating CSR practices into strategy to enable SMEs to have the flexibility to adopt different internationalisation strategies for different markets.

Accordingly, based on the findings of this research, the international entrepreneurship model shown earlier in Figure 2.6 has been modified to reflect these additional critical
important factors for the successful internationalisation of manufacturing SMEs. The modified model, as shown in Figure 5.2, indicates that the combined impact of all its constituent components could create an appropriate setting for firms to secure global sustainable competitive advantage.

Figure 5.2  A Modified International Entrepreneurship Conceptual Model Developed from the Research Findings

Source: Adapted from Antoncic and Hisrich (2000).

5.5  Implications for Policy and Practice

As explained in Sub-Section 1.3.1, this research was also justified on the grounds of its contributions to improving public policies and managerial practices by the owners of SMEs and the relevant industry associations. These are detailed below.
5.5.1 Implications for Policy

The research findings pointed to the need for the Government to improve the effectiveness of its support programmes for SMEs that are either export-ready or already engaged in international operations. In this regard, six areas merit critical review. These are:

- Preparing Malaysian manufacturing SMEs for internationalisation.
- Addressing the human capital needs of Malaysian manufacturing SMEs.
- Further encouraging the development of a R&D culture to promote innovation and become own brand manufacturers (OBMs).
- Increasing the awareness of manufacturing SMEs on the available support policies, schemes and measures.
- Making the application procedures for Government support programmes and schemes more “applicant-friendly”.
- Improving the delivery system to ensure that all eligible manufacturing SMEs benefit from speedy application processing and receive timely support for their internationalising efforts.

i) Preparing Malaysian Manufacturing SMEs for Internationalisation

The findings of the literature review and primary data analysis clearly indicated that the liberalising domestic market no longer offer protection for the Malaysian SMEs. They therefore have to venture into the global market-place for business survival. However, some Malaysian manufacturing SMEs still remain unaware of the challenges confronting them with the implementation of the WTO and the AFTA. Accordingly, it would be necessary for:

- The Government to institute an „early warning system” to alert and forewarn Malaysian SMEs of the downsides of market liberalisation.
• Internationalisation to become a cornerstone of corporate strategies. For this purpose, the Government should provide advisory and consultancy support to Malaysian manufacturing SMEs to familiarise themselves with the implications of the WTO and the AFTA on their operations. The Government should offer support to SMEs to devise appropriate strategies to move into international markets.

• SMEs to move up the value chain to make them better placed to enter into global supply chains and international networks.

• All export promotion activities of manufacturing SMEs be supported and coordinated by a powerful agency. A strengthened MATRADE could be suited for this purpose.

ii) Addressing Human Capital Needs
As discussed in Sub-Section 2.5.5.3, human resources are a source of competitive advantage. They are keys to a firm’s success and the firm’s ability to attract quality workforce categorised by intelligence, motivation, experience, creativity, commitment, analytical abilities and computer skills (Johansson & Larsson 2000).

“About 80% of Malaysian SMEs are in need of capacity building” (Hashim, 2007, p. A2). Therefore, a good quality labour force is also a prerequisite for firms to compete effectively in global markets. In Malaysia, the demand for IT personnel far exceeds their supply and the gap is expected to widen over time (Chew 2006). The skill shortages are particularly acute for staff with knowledge and experience of systems development, engineering, operations management, training, marketing intelligence and R&D.

In order to address the situation, the following suggestions are offered:
• Undertake a critical review of the public higher education system with the aim of ensuring that the graduates are industry orientated with the necessary practical and analytical skills to meet the requirements of the industry.

• Promote inter-firm linkages with the larger firms providing exposure and training on more advanced technologies to the staff of SMEs.

• Re-orient the industrial training system with the public training institutions becoming more global market-driven.

• Review the foreign labour policies in the context of the needs of manufacturing SMEs. These include greater latitude for SMEs to recruit talented and skilled foreign workers to assist Malaysian manufacturing SMEs with their internationalisation efforts.

• Encourage all Malaysian manufacturing SMEs to contribute to the Human Resources Development Fund (HRDF) in order to increase their investments in the training of their staff.

iii) Promote An R&D Culture
Sub-Section 2.5.5.4 stressed the need for Malaysian manufacturing SMEs to adopt innovative strategies. They have to produce successful products which are products of successful improvements (Pralahad & Hamel 1980). SMEs should improve the quality of their products and services that exceed customer expectations and at lower costs than their rivals.

Innovation therefore is vital for the successful internationalisation of SMEs. Creativity is the essential critical commencement component of the innovation value chain. An important finding of the study was that few SMEs emphasised on R&D. They therefore have to rely on networks with other enterprises and public institutions in order to innovate. Indirectly therefore the findings of this research stress the importance of knowledge spillovers from the MNCs and the public research to support innovations in SMEs.
Furthermore, R&D is positively related to branding. The literature review indicated that Malaysian SMEs lack the research culture and view R&D activities as costing too much and taking too long to result in good returns on their investments. This shortcoming could also be due to inadequate financial support from the Government. This was reinforced by the 3rd NSI Survey which revealed that out of a total of 263 firms that innovated, only 11 received some financial support from the Government (Lee 2005).

In order to improve the situation, the empirical findings of the research suggest that:

- The Government expands its support for R&D activities undertaken by the SMEs. This could be by providing financial incentives and tax relief for R&D expenditure.
- Encourage national research associations to adopt more proactive roles in supporting the research activities of manufacturing SMEs.
- Encourage university-industry linkages to assist SMEs to gain access to R&D which is necessary for innovation.
- Give further emphasis to the establishment of technology incubators which could take a range of institutional forms, operating either as integrated or separated organisations within Science Parks, universities or Innovation Centres.

**iv) Increasing Awareness**

The literature review revealed, in Sub-Section 2.8.8, that the Government is fully committed to promoting the export development efforts of manufacturing SMEs. This is reflected by the comprehensive package of financial and other support schemes targeted at encouraging the manufacturing SMEs to fully exploit the export potential in a liberalising world.
The research findings, however, indicated that the manufacturing SMEs were generally unaware of all the available schemes (Ahmad et al. 2002). Furthermore, some of them held the view that the Government’s support package was discriminatory in the sense that it was confined to only Bumiputera-owned SMEs (Asokkumar 2006). Although, this could be an erroneous perception, the situation calls for more attention to be given to encourage all potential and deserving SMEs to participate in SME support programmes. For this purpose, the following measures are suggested:

- Formulate and implement programmes that are specifically designed to increase the awareness of all SMEs owners, from all racial groups, of the available assistance schemes.

- The Government should work closely with manufacturing associations and conduct joint programmes with them to publicise the different support programmes.

- Publicise the available programmes through advertisements in the Bahasa Malaysia, English, Mandarin and Tamil newspapers, and radio and television stations.

- Increase the number of SMEs awareness campaigns. These should provide for participation by SMEs nationwide rather than be of benefit only to those in the few selected large towns as is currently the case.

\[v\) \textit{The Application Procedures}\]

The research findings revealed that some manufacturing SMEs experience difficulties with the grant and loan application procedures. They were not only regarded as being cumbersome but also too detailed in the sense that they were required to provide excessive supporting documentations (Yap 2003). Another grouse was that the application forms were in Bahasa Malaysia and English. However, a large number of the smaller manufacturing SMEs owners were not
conversant in both languages. In order to improve the situation, it is suggested that:

- The application forms be amended to make them simpler and easier to understand.

- The required supporting documentation be reduced.

- Greater publicity be given to the fact that some of applications for assistance can be made be online.

- Consideration be given to the application forms being worded in Mandarin and Tamil as well.

**vi) Improving The Delivery System**

As discussed in Sub-Section 2.8.5, the national SME Blueprint for 2006, identified 246 programmes involving a commitment of RM3.9 billion. Table 2.10 listed a total of 189 key programmes that were planned for SMEs development in 2007. A large number of Government agencies at the Federal and State levels as well as specialized bodies were involved with programme delivery. This raises issues of gaps for some SMEs, and the duplication of coverage for others (Selvanathan 1999; Asokkumar 2006; Salleh & Ndubisi 2006).

The Government on its part has made SMIDEC, the SME Central Coordinating Agency, to spearhead the development and implementation of all SME programmes. Another appropriate initiative which is generating results is the establishment of PEMUDAH. This is a joint high level public-private sector task force to streamline delivery systems and improve programme implementation.

However, additional measures which could be considered include:

- A mechanism to encourage SMEs to play pro-active roles by offering suggestions to Government agencies on improving programme delivery.
The industry associations could play more meaningful and effective roles in the approval and delivery of grant and loan assistance schemes.

- Reviewing the stipulation that the Government’s financial support schemes are only available to SMEs with a turnover of less than RM25 million. This was considered as a limiting factor as exporting SMEs could not obtain financial assistance for upgrading their technology and global market promotion efforts.

- The available assistance should be targeted at the exporting and export-ready manufacturing SMEs which require support for overcoming the competitive challenges in the global market-place.

- Loan and grant application processes should be simplified and where possible, standardised among all the Ministries and agencies responsible for SME support, in order to speed up the approval process.

5.5.2 Implications For the Manufacturing SMEs

The findings of the literature review, the Expert Panel, the Focus Group and the Questionnaire Survey clearly indicate that the forces of globalisation are transforming the international trade landscape. Malaysian manufacturing SMEs have to internationalise to meet the new demands of the highly competitive market-place. These largely relate to:

- The need to adopt a strategic global outlook and an international outlook.
- Competing in the new economy phenomenon.
- Acquiring international business skills and mastering languages.
- Moving up the value chain.
- Becoming more self-reliant and not be overly dependant on the Government.
- Enhancing management practices.
- Adopting CSR practices.
i) **A Strategic Global Outlook**

The literature review revealed that any company that aspires to industry leadership must have a global outlook (David 2005). Companies in industry that are already globally competitive or in the process of becoming so, are under pressure to formulate strategies for competing successfully in foreign markets (Thompson, Strickland & Gamble 2007). The secondary data analysis also revealed that:

- Malaysian SMEs must adopt global mindsets to reap the new market opportunities emerging from globalisation.
- Establish strategic tie-ups with TNCs or with regional firms to give them an international presence for becoming competitive.
- Develop and sustain international linkages with overseas suppliers in order to gain footholds in the international production networks.

The empirical research findings also suggest that manufacturing SMEs must:

- Emphasise on change management and acquire international business skills.
- Strengthen their management, planning and marketing capabilities by hiring staff who are familiar with the requirements of international markets.

ii) **Competing in the New Economy Phenomenon**

The new economy phenomenon is changing the way of doing business. One clear change is in global trade connections and in doing business through the Internet, which in a sense eliminates the role of the middleman. In the new economy, customers directly connect and communicate with suppliers or manufacturers. The changing situation requires SMEs to adopt new mindsets, new business approaches and new business process platforms (Kanapathi 2003).
The findings of the literature review were reinforced by members of the Expert Panel, the Focus Groups and the Questionnaire Survey respondents. Viewed in this context, it is suggested that Malaysian manufacturing SMEs:

- Give more emphasis to e-business, in particular B2B business.
- Increase their investments in IT and staff training to promote IT literacy.
- Adopt new business approaches and new business practices.

iii) Acquiring International Business Skills and Mastering Languages.

The literature review revealed that successful internationalisation hinges on SMEs understanding value systems, legal structures, fiscal issues, incurring risks and cultural and language differences (Norton 2007). For this purpose, it is necessary to master languages related to the global business world.

This was reaffirmed by the empirical research findings. Accordingly, it is suggested that manufacturing SMEs:

- Acquire international business skills and master global business languages to remain successful in the global market-place, in particular, English, which is the language of global business world.
- Encourage their staff to become more conversant with the English language by providing financial assistance to attend appropriate courses.

iv) Moving up the value chain

The literature review underlined the importance of manufacturing SMEs improving their international competitiveness. This requires a move up the manufacturing value chain. It also requires the manufacturing SMEs to be competent in the areas of R&D, product development, marketing and distribution.

Additionally, the research findings suggest that manufacturing SMEs should:
• Assume greater responsibility for R&D activities and not rely solely on public research institutions.

• Develop their design capabilities in order to manufacture and supply high value products.

• Introduce appropriate management structures with the capability to formulate and implement programmes to build technological competence for the manufacture of sophisticated high value products.

• Emphasise on branding as this is critical for product differentiation and to benefit from the price premiums associated with good and recognizable brands.

v) **Becoming more self-reliant and not be overly dependant on the Government.**
The literature review revealed that generally SMEs are overly dependant on Governmental assistance to support their internationalisation efforts. While the Government has in place a comprehensive range of measures to support SMEs, the empirical findings suggest that the manufacturing SMEs should become more self reliant and not be fully dependant on Government support for venturing into overseas markets.

vi) **Enhancing management practices.**
The literature review revealed that owners of SMEs in particular the start-ups, generally, have limited management skills, little formal education and little business experience related to their business (Kanapathi 2003).

Another challenge is the creation of professional management structures in family-owned enterprises which are nimble and robust. They must be able to research global markets, understand the competitive landscape and have a clear focus on what their customers need and how their products satisfy them. Equally important is the need to identify and manage risks. This requires SMEs to work with value
adding partners and to demonstrate clear leadership and strength in the management team (Norton 2007). This is generally a shortcoming with a family-centred approach, which does not attach much value to the adoption of modernistic professional management and quality training systems. SMEs are also generally unable to better utilise technologies as they experience shortages of technical and professional expertise due to their inability to attract and retain suitable talents (Fong 1999).

The empirical findings of the research also suggested that it was critical for the manufacturing SMEs to hire competent professional staff:

- Regardless of race, who are capable of undertaking global market research to determine emerging needs and forge international market linkages to enter into the global supply chains
- Who are fully familiar with national Government policies and understand grant/loan application procedures; in particular the stipulated criteria to qualify for such assistance.

vii) The Adoption of CSR practices
The research findings revealed that socially and environmentally responsible behaviour can contribute to the business successes of manufacturing SMEs. Malaysian manufacturing SMEs targeting entry into new export markets should take full account of CSR issues in their corporate strategies. However, the limited literature available indicated that the manufacturing SMEs do not attach much priority to CSR practices.

This was reinforced by the findings of the primary data analysis which suggest that the manufacturing SMEs should:

- Benefit from CSR training and exposure activities.
- Engage a diversified workforce, in terms of ethnicity and gender.
- Protect the environment by using disposable packaging, avoiding dumping of chemical wastes, adopting energy conservation methods and only using suppliers that adopt environmental protection practices.

- Enhance employee well being by way of on-going training, gender, equity and welfare benefits.

- Fully understand the ethical and CSR practices of the MNCs that participate in global supply chains.

5.6 Limitations

A number of limitations associated with this research were identified in Chapter 1. It also discussed a number of tactics to overcome these limitations. This Section discusses three other limitations that became apparent during the research process.

First, the use of a mixture of judgment and quota sampling for the survey sample. This was adopted for two reasons: i) because they are generally inexpensive and the procedures take little time, and ii) quota sampling permitted sub-sets of the target population to participate in the survey. However, this could have resulted in „researcher bias“.

Second, the sensitive and confidential nature of some of the questions which were included in the Survey Questionnaire. This may have precluded or constrained some of the participants to express their candid views.

Third, the global economic situation was characterised by rapid changes during the conduct of the research. Consequently, the available literature was silent on these most recent developments. However, some of the unforeseen issues were highlighted by participants of the Expert Panel and the Focus Group. These were presented as unplanned data.
5.7 Implications For Further Research

This final Section of the thesis outlines those areas that merit further exploration. This research presented a pre-paradigmatic body of knowledge that required inductive theory building as opposed to deductive theory testing. Furthermore, this research was largely exploratory and preliminary in nature. This provides opportunities for further research on areas related to the internationalisation of manufacturing SMEs. Three suggested research issues that can be explored further are given below.

First, a *positivist study to generate the research findings*. This research was exploratory in nature since the prime purpose was to define the problem for the purpose of subsequent research. A relatively small survey sample was used. Although it has its advantages, the use of a small sample size impedes the projectability of the findings. This limitation can be addressed through the conduct of further research premised on a positivist or deductive methodology. Benefiting from the use of a larger sample, the research findings could provide a statistical validity to underline the results and the conclusions reached.

Second, a study to *test the developed international entrepreneurship model*. Presented in Section 5.4, this model shows the relationship between the identified critical factors for the successful internationalisation of manufacturing SMEs. The conduct of a follow-up descriptive research study could examine the relevance of the model and to verify or refute it. The outputs of this further research could also provide useful benchmarks for government officials, owners of SMEs and academia.

Third, the *replication of the study*. The literature revealed that manufacturing SMEs are important drivers of economic growth in several countries. Therefore, issues relating to their internationalisation are of global interest and provide opportunities for replication of this study; particularly in those countries which are Malaysia’s regional trade rivals. The results could provide useful insights on the support extended by governments to their SMEs. The comparison could also highlight the wide range of management practices and contribute to our understanding of the challenges faced by manufacturing SMEs.
5.8 Conclusion

This Chapter presented the conclusions drawn on each of the four research propositions. It then discussed new theory development and offered recommendations for policy and practice. This was divided into two parts. First, the implications for policy formulation by the Malaysian Government authorities responsible for the growth and development of manufacturing SMEs. Second, the implications of the findings for business managers in the manufacturing SMEs and the industry associations.

This final Chapter then outlined the limitations that became apparent during the research process and provided a synopsis of the opportunities for further research on issues related to the internationalisation of manufacturing SMEs.
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APPENDIX A

Sample Informed Consent – Focus Group

Informed Consent to Participate in a Focus Group for a Doctor of Business Administration Research Thesis

This consent form is based on Guidelines from the National Statement on Ethical Conduct Involving Human Participants as issued by the NHMRC.

Title of Thesis: Internationalising Malaysian Small and Medium Manufacturing Enterprises

Researchers: Tan Lin Lah
Tel +6012-2396699
Email: joyulsama@gmail.com

Dr Andy Woo
(Supervisor / Person Responsible)
Tel +6013-2082698
Email: aclwoo@gmail.com

☐ I have been provided with information at my level of comprehension about the purpose, methods, demands, risks, inconveniences, and possible outcomes of this research (including any likelihood and form of publication of results).

☐ I agree to participate in a Focus Group meeting which will serve as a data collection technique for the above research thesis. I have read and understand the details contained in the Information Sheet. I have had the opportunity to ask questions about the study and I am satisfied with the answers received.

☐ My participation in the Focus Group is on the condition that the proceedings will not be recorded on audiotape and that the researchers only take handwritten notes during the proceedings.

☐ I understand that if I withdraw from participation in this research, all the handwritten notes about my contribution will be destroyed.
☐ I understand that participation in this research will be kept strictly confidential.

☐ I understand that any personal information which may identify me will be de-identified at the time of analysis of any data. Therefore, I, or the information I have provided, cannot be linked to my person/or company. (Privacy Act 1988 (Cth))

☐ I understand that neither my name nor any identifying information will be disclosed or published, except with my permission.

☐ I understand that all information gathered in this research is confidential. It is kept securely and confidentially for 5 years, at the University.

☐ I understand that I am free to discontinue participation at any time. I have been informed that prior to data analysis, any data that has been gathered before withdrawal of this consent will be destroyed.

☐ I understand that should I request for a copy of the research results, it would be sent to me via my email address ___(please provide email address)______________

☐ I am aware that I can contact the Supervisor or other researchers at any time with further inquiries, if necessary.

☐ The ethical aspects of this study have been approved by the Southern Cross University Human Research Ethics Committee (HREC). The Approval Number is (ECN-08-017).

*If you have any complaints or reservations about any ethical aspect of your participation in this research, you may contact the Committee through the Ethics Complaints Officer:*

Ms Sue Kelly  
Ethics Complaints Officer and Secretary  
HREC  
Southern Cross University  
PO Box 157  
Lismore, NSW, 2480  
Telephone (02) 6626-9139 or fax (02) 6626-9145  
Email: sue.kelly@scu.edu.au

*All complaints, in the first instance, should be in writing to the above address. All complaints are investigated fully and according to due process under the National*
Statement on Ethical Conduct in Research Involving Humans and this University. Any complaint you make will be treated in confidence and you will be informed of the outcome.

☐ I understand that I will be given a copy of this consent form for my records. The researcher will also keep a copy in safe storage at the University.

I have read the information above and agree to participate in this study. I am over the age of 18 years.

Name of Participant: ......................................................................................................................

Signature of Participant: .................................................................................................................

Date: ...........................................................................................................................................

I certify that the terms of the Consent Form have been verbally explained to the participant and that the participant appears to understand the terms prior to signing the form. Proper arrangements have been made for an interpreter where English is not the participant’s first language.

Name & Contact Detail of Witness: .....................................................................................................

.....................................................................................................................................................

Signature of Witness: ..........................................................................................................................

Date: ..........................................

NOTE:
The witness should be independent of the research, where possible. If this is not possible at the place of consent, please inform the researcher and state a reason below.

Reason: ..............................................................................................................................................

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.....................................................................................................................................................

Name and signature of the researcher: ..............................................................................................

.....................................................................................................................................................

Date: ..............................................................................................................................................
APPENDIX B

Sample Information Sheet – Focus Group

My name is Tan Lin Lah and I am conducting research on the internationalisation of Malaysian manufacturing small and medium enterprises (SMEs) through Southern Cross University.

You are invited to participate in a Focus Group meeting that seeks to investigate the critical factors for the successful internationalisation of Malaysian manufacturing SMEs. This research, conducted by me, forms part of a Doctor of Business Administration (DBA) programme of Southern Cross University. My supervisor, Dr Andy Woo, will be guiding me through the research.

The Focus Group would comprise seven participants with in-depth knowledge of Malaysian manufacturing SMEs. They would be drawn from the concerned Government agencies, the manufacturing associations, the multinational corporations (MNCs), academia and SMEs.

Malaysian manufacturing SMEs are important contributors to the Malaysian economy in terms of employment and export earnings. They however now face new challenges emerging from the forces of globalisation. Malaysian manufacturing SMEs must, therefore, internationalise their operations for their economic survival. My intended research aims to identify the critical factors for successful internationalisation and, based on the findings to offer recommendations for policy and practice.
Procedures to be followed

I will serve as the facilitator cum moderator of the 75 minutes Focus Group meeting which will be held on _____ at _____ in the ______ hotel, in Kuala Lumpur. All participants would be encouraged to speak candidly on the discussion topics which relate to the issues that Malaysian manufacturing SMEs must address in order to become global in their operations. I look forward to all participants expressing their in-depth views. As the facilitator, I will be more of a listener, re-focus discussion on topics when necessary, summarize the views expressed and take notes.

Participation is purely voluntary and no financial remuneration or incentive will be offered for taking part in this research. There are no travel expenses, nor are there any costs associated with participation in this research. There is no cost to you apart from your time.

Possible Discomforts and Risks

There are no foreseeable risks or discomforts above those associated with the time taken to participate in the Focus Group meeting.

Responsibilities of the Researcher

It is our duty to make sure that any information given by you is protected. Your name and other identifying information will not be attached to data collected. Your name will only be used to facilitate an appointment for the Focus Group meeting. Any identifying information will be destroyed after your participation in the study.

It is essential that you sign an informed consent form before you participate in the Focus Group meeting. Due to this necessity, a procedure has been set in place to ensure that your personal details can at no time be matched, identified or tracked back to the data collected on your performance in this research exercise.

All signed informed consent forms will be held in safe storage at the University for a period of five years before being destroyed. The information will be presented as overall data. The research findings may be submitted for publication.

Responsibilities of the Participant

If there is anything that might impact upon your participation in this study, you may wish not to do so. Please note that you could also discontinue participation without explanation of such factors. If you feel there are any safety concerns, also let us know.

Freedom of Consent

If you decide to participate, you are free to withdraw your consent and to discontinue participation at any time. However, we would appreciate you letting us know your decision.
Inquiries

This form is yours to keep for future reference. If you have any questions, we expect you to ask us. If you have any additional questions at any time please ask:

Researcher
Tan Lin Lah
Tel +6012-2396699
Email: joyfulsama@gmail.com

Supervisor
Dr Andy Woo
Tel +6013-2082698
Email: aclwoo@gmail.com

The ethical aspects of this study have been approved by the Southern Cross University Human Research Ethics Committee. The Approval Number is ECN-08-017. If you have any complaints or reservations about any ethical aspect of your participation in this research, you may contact the Committee through the Ethics Complaints Officer:

Ms Sue Kelly
Ethics Complaints Officer and Secretary
HREC
Southern Cross University
PO Box 157
Lismore, NSW, 2480
Telephone (02) 6626-9139 or fax (02) 6626-9145
Email: sue.kelly@scu.edu.au

All complaints, in the first instance, should be in writing to the above address. All complaints are investigated fully and according to due process under the National Statement and this University. Any complaint you make will be treated in confidence and you will be informed of the outcome.
APPENDIX C

Sample Information Sheet – Questionnaire Survey

SOUTHERN CROSS UNIVERSITY
INFORMATION SHEET ON A QUESTIONNAIRE SURVEY
FOR A DOCTOR OF BUSINESS ADMINISTRATION
RESEARCH THESIS

TITLE OF THESIS
INTERNATIONALISING MALAYSIAN MANUFACTURING
SMALL AND MEDIUM ENTERPRISES

My name is Tan Lin Lah and I am conducting research on the internationalisation of Malaysian manufacturing small and medium enterprises (SMEs) through Southern Cross University.

You are invited to participate in a Questionnaire Survey that seeks to investigate the critical factors for the successful internationalisation of Malaysian manufacturing SMEs. This research, conducted by me, forms part of a Doctor of Business Administration (DBA) programme of Southern Cross University. My supervisor, Dr Andy Woo, will be guiding me through the research.

Malaysian manufacturing SMEs are important contributors to the Malaysian economy in terms of employment and export earnings. They however now face new challenges emerging from the forces of globalisation. Malaysian manufacturing SMEs must, therefore, internationalise their operations for their economic survival. My intended research aims to identify the critical factors for successful internationalisation and, based on the findings to offer recommendations for policy and practice.

Procedures to be followed

The Questionnaire comprises 12 questions which have been cast as Statements. Each Statement relates to an issue which is pertinent to the research. In order to measure your responses, a five-point Likert scale, is being used. There are, therefore, five boxes ranging from „Strongly Disagree“ to „Strongly Agree“ for each Statement. Please tick the appropriate box.
Based on an earlier pre-testing of the questionnaire, it is estimated that you would require no more than 20 minutes in total to complete all the questions. After you have completed the questionnaire, please telephone me and I will arrange for it to be collected.

Participation is purely voluntary and no financial remuneration or incentive will be offered for taking part in this research. There are no travel expenses, nor are there any costs associated with participation in this research. There is no cost to you apart from your time.

Possible Discomforts and Risks

There are no foreseeable risks or discomforts above those associated with the time taken to complete the questionnaire.

Responsibilities of the Researcher

It is our duty to make sure that any information given by you is protected. Your name and other identifying information will not be attached to data collected. Your name will only be used to facilitate an appointment for the Questionnaire Survey. Any identifying information will be destroyed after your participation in the study.

The information will be presented as overall data. The research findings may be submitted for publication.

Responsibilities of the Participant

If there is anything that might unduly affect your response to the Statements in the questionnaire, you are asked not to participate. You may leave the survey voluntarily without any explanation.

Freedom of Consent

If you decide to participate, you are free to withdraw your consent and to discontinue participation at any time. However, we would appreciate you letting us know your decision.

Inquiries

This form is yours to keep for future reference. If you have any questions, we expect you to ask us. If you have any additional questions at any time please ask:

Researcher
Tan Lin Lah
Tel +6012-2396699
Email: joyfulsama@gmail.com

Supervisor
Dr Andy Woo
Tel +6013-2082698
Email: aclwoo@gmail.com

The ethical aspects of this study have been approved by the Southern Cross University Human Research Ethics Committee. The Approval Number is ECN-08-017. If you have
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All complaints, in the first instance, should be in writing to the above address. All complaints are investigated fully and according to due process under the National Statement and this University. Any complaint you make will be treated in confidence and you will be informed of the outcome.
# APPENDIX D

## Research Schedule

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<th>Period</th>
<th>Task</th>
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<tr>
<td>1 September 2007 – 30 November 2007</td>
<td>Analytical Framework</td>
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<td>Literature Review</td>
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<td>1 December 2007 – 18 March 2008</td>
<td>Research Methodology</td>
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<tr>
<td></td>
<td>Identify Members of the Expert Panel, Focus Group and Questionnaire Survey Participants</td>
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<td></td>
<td>Prepare Survey Questionnaires</td>
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<td>Secure SCU Ethics Committee’s Approval</td>
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<tr>
<td>19 March 2008 – 10 April 2008</td>
<td>Conduct Personal Interviews</td>
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<td>Hold Focus Group Meetings</td>
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<td>Conduct Structured Interviews</td>
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<td>11 April 2008 – 25 April 2008</td>
<td>Process and Analyse Data</td>
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<td>26 April 2008 – 7 May 2008</td>
<td>Arrive at Conclusions and Formulate Recommendations</td>
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<tr>
<td>26 May 2008</td>
<td>Submit Thesis for Examination</td>
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