

## Halal International New Ventures (INVs) As a Special Case of SMEs Internationalization

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### Abstract

With the globalization of business, Internationalization of SMEs has become an essential requirement for competing in global markets. Globalization created a new and dynamic world economy and the “International New Ventures” (INVs) phenomenon as especial cases of SMEs internationalization. However, very little is known about INVs and their significant role of them in international business performance. In addition, the literature is depicted few investigations in Malaysian international new ventures from the perspective of SMEs internationalization. Therefore, the general objective of this study is to introduce Halal International New Ventures (INVs) and the effective role of them in Malaysian international business performance as SMEs internationalization. To achieve the objectives of the study is made possible through discussion on the conceptualization and definition of INVs, history and the globalization of Halal, Halal SMEs internationalization and serious challenges that are faced in international markets. The study is concluded that Halal INVs can have the significant role in achieving the national goals as SMEs internationalization. Consequently, it is also given an instruction to the managers of INVs through supplying valuable perceptions into how they can deal with dynamic global marketplaces. Vision and strategy are provided to the policy makers in planning to overcome the shortages of developing exports.

**Keywords:** Globalization; Internationalization; International performance; Halal SMEs internationalization; International New Ventures (INVs)

## 1. Introduction

Over the past two decades, International Entrepreneurship (IE) has emerged as a distinct academic discipline that concentrates on new ventures. They have been international from inception or near after it. In this views, investigation into IE and International New Ventures (INVs) as the new stream has resulted in a combination of entrepreneurship and International Business (IB) literature (Keupp, 2009; McDougall and Oviatt, 2000a). On the other hand, the ability of firms to become internationalized has become an essential ingredient for success in international markets, because it enables firms to survive and grow under new business situations.

In the environment of global business, internationalization has turned into as a key driving force for competition (Mascherpa, 2012). The process of globalization has decreased the barriers of trade by the advancement in transportation, technology and communications. This situation has shifted global value chains and has driven the world to new arrangements which lack boundaries and has resulted in a global village (Knight and Cavusgil, 2004a; Ohmae, 1990). Globalization has made it possible to increase and expand the number of firms involved in international activities. Consequently, the interest of the investigation has been increased by the internationalization of young and small companies (Autio *et al.*, 2000; McDougall and Oviatt, 1994; Zahra, 2005b).

Traditionally, large Multinational Enterprises (MNEs) have been the focus of in internationalizations (Coviello and McAuley, 1999; Oviatt and McDougall, 1994). But, for more than two decades, there has been an expansion in behavior studies of the internationalizations of small and medium-sized enterprises (Jones, 1999; Knight, 2001). The literature on internationalization has also received sizable attention over the last few decades. For instance, the literature of INVs e.g., Oviatt and McDougall (1994), and born global e.g., Knight and Cavusgil (2004a) has shown an increasing trend among SMEs to go international (Xie and Suh, 2014). All around the world, it has been become one of the most significant strategies of growth for entrepreneurial firms (Beamish and Lupton, 2009; Lu and Beamish, 2001; Oviatt and McDougall,

1999; Peng, 2001; Ruzzier *et al.*, 2006; Yamakawa *et al.*, 2008). There is a continuous adjustment process involved in globalization (Ling, 2002). This situation has made it possible to grow the national economy of many countries around the globe, and Malaysia is no exception.

In addition, earlier investigations about internationalization of firms are principally restricted to the companies that operate in western countries or in developed markets (Zhang *et al.*, 2009). For instance, most investigations of international entrepreneurship has been centered on relatively young industries with high- technology and situated in developed countries (Autio *et al.*, 2000; Bloodgood *et al.*, 1996; Busenitz *et al.*, 2000; Zahra *et al.*, 2000b). Similarly, international entrepreneurship investigations have mainly concentrated on new ventures which have a foundation in developed economies while, not much attention has been paid to new ventures in emerging economies (McDougall and Oviatt, 2000b; Oviatt and McDougall, 1994; Yamakawa *et al.*, 2008) such as Malaysia. Moreover, the process of globalization and internationalization has made it possible for new situations and for economic growth by increasing international trade among countries around the world such as Malaysia.

Over the years, Malaysia's performance in world trade has developed especially in exports, and international business has generally been important for the country's economic growth (Ahmed *et al.*, 2006). According to the Seventh Malaysian plan (1996-2000), macroeconomic goals have been sustained with a high level of growth and strengthening in international competitiveness (Mansur *et al.*, 2011). Studies by Anderson, Erikson and Lundmark (2006), Ahmed, Julian *et al.* (2006), Abdul-Aziz, Ngau *et al.* (2011), Che Senik, Scott-Ladd *et al.* (2011), Wahab (2011) and (Che Senik *et al.*, 2011; Senik *et al.*, 2010) have also confirmed these trends in Malaysian products and services companies. Malaysia aspires to change its status from a developing country to a fully developed one by 2020. This would be done by increasing global business. This has resulted in dramatic economic transformation in the economy. Therefore, Malaysia's rapid economic growth in the context of macroeconomic endurance has attracted much international consideration (Mansur *et al.*, 2011). Despite the important role of Small and Medium Enterprises

(SMEs) in International Business (IB) the area of internationalization among Malaysian SMEs has seen only, a small number of empirical investigations (Chelliah *et al.*, 2010). In fact, there is a scarcity of studies in Malaysian Halal INVs as a special case of SMEs internationalization.

In this vein, this study is contributed by introducing the Halal INVs as a special case of SMEs internationalization, their significance role of them on international performances and competitions in global markets. In that regard, the literature has pointed out that before globalization scholars concentrated on large, well-established firms, but following globalization, the world economy landscape changed leading to the emergence of “International New Ventures” (INVs) phenomenon (Keupp and Gassmann, 2009b; McDougall and Oviatt, 2000a). In this regard, the literature does not sufficiently present International New Ventures (INVs) and the serious challenges the global markets (Zahra, 2005b) especially in the Malaysian Halal INVs. As practical contribution of this study, Malaysian International New Ventures (INVs) and their managers might be able to recognize and assess the weakness and strengths of their companies in the global business activities. Therefore, it facilitated the development of appropriate strategies in international business for enhancing their international performance of INVs.

By considering the current situation in the world of global business, this study also gives an instruction to the export managers which are active in international business. In view of the macro policy making such as Governments, they can play significant role in achieving national goals and economic growth through the internationalization of companies. Thus, the study provides suitable vision and strategy to policymakers for overcoming the serious challenges that they Halal INVs are faced. The following sections explain conceptualization and definition of International New Ventures (INVs). It also reveals the background of the study through discussion on history of Halal, Globalization, Halal SMEs Internationalization and National Goals and significance of internationalization of firms in Malaysia. Challenges of Malaysian SMEs and conclusion are considered as the final sections.

## **2. Conceptualization and Definition of International New Ventures (INVs)**

After globalizations, new and dynamic world economy changed giving rise to “International New Ventures” (INVs) or “Born Global” (BG) phenomenon. In globalizations of the economy, International New Ventures (INVs) have played an extraordinary role (Mudambi and Zahra, 2007; Shrader *et al.*, 2000; Zahra, 2004).

In general, International New Ventures (INVs) as one of the most significant economic growth engines have been trying to receive benefits from international markets immediately upon formation (Oviatt and McDougall, 2004a). They are defined as “a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs to multiple countries” (Oviatt and McDougall, 1994). The contribution of international entrepreneurship literature to the subject of international new ventures has been considerable and engaging. The number of researches that paid attention to the phenomenon of international new ventures has been increasing during the past decade (Mainela and Puhakka, 2011). So far, within entrepreneurship, new ventures have been created to follow, but all the opportunities have not been exploited (Dahlqvist and Wiklund, 2011).

One of the first thematic areas to come out from the literature of international entrepreneurship (IE) is the ventures’ research type (Jones *et al.*, 2011). International New Ventures (INVs) as a new and growing phenomenon have been international from inception and this point has been reported by the popular business press since the late 1980s (Gupta, 1989; Mamis, 1989; Oviatt and McDougall, 2004a). These firms have been defined as newly established and have become international from inception or shortly thereafter (Rialp *et al.*, 2005). Also International New Ventures (INVs) are defined by Oviatt and McDougall (1994) as “a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and sale of outputs in multiple countries” (Keupp and Gassmann, 2009a).

McDougall's investigation (1989) is one of the earliest empirical studies, which upholds INVs and the field of international entrepreneurship. In this study, international new venture has been recognized as the ventures that extract further than twenty- five percent of their entire sales from sales in international markets. On the other hand, the starting point of international entrepreneurship research has been studied by Oviatt and McDougall (1994). In this study, they compared younger and smaller companies that became more quickly international with large firms that progressively incorporated to internationalization (Johanson and Vahlne, 1977). However, International New Ventures (INVs) have been established in various sectors. They can be high-technology (Crick and Jones, 2000) manufacturing firms (McAuley, 1999) , or skill based and artistic firms (Madsen *et al.*, 1999).

In addition, the idiom of the International New Venture (INVs) has been coined by (Oviatt and McDougall, 1994). They have defined INVs as a business organization that is active in multiple countries which seek to acquire significant competitive advantage through the sale of outputs and use of resources (Oviatt and McDougall, 2004a). A rich research area has been studied and introduced on international new ventures or early-internationalized firms that have been discussed as born global; but in this study, the researcher has chosen the concept of International New Venture (INVs) as young and small companies. In fact, we still know little about the challenges that these kinds of firms are facing in understanding and resourcing suitable knowledge for the successful growth of the businesses in international markets (Eriksson *et al.*, 2000; Fletcher and Harris, 2012; Osman *et al.*, 2013; Zahra, 2005a). The research attempted to recognize the serious challenges faced by these kinds of firms in global markets by choosing and using suitable knowledge as a new venture resource. By considering the studies on INVs, the current study was concerned with the INVs' age as the period until internationalization has different meaning in the literature as follows.

### **3. International New Ventures (INVs) Ages**

There are no common views of scholars about the age of international new ventures. A number of studies have stated that firms eight or fewer years old are new ventures (Biggadike, 1979; McDougall and Oviatt, 1996; Miller and Camp, 1985). Other investigators have approved various cut-off bounds to determine the range for new ventures from three to seven years old (Shane, 1991).

Oviatt and McDougall (1994) and Fan and Phan (2007) stated it from inception, McAuley (1999) holds for one year, McKinsey et al. (1993) and Freeman and Cavusgil (2007) believe it is two years, Knight and Cavusgil (1996), Moen (2002), Knight and Cavusgil (2004b), Mort and Weerawardena (2006) and Crick, (2009), Servais et al. (2006) support three years, Zahra et al. (2000a) state six years and Gassmann and Keupp (2007) suggest ten years after inception as INVs. Moreover, Gabrielsson et al. (2008) considered flexible time period and Luostarinen and Gabrielsson (2006) did not specify the time period until internationalization. Table 1.1 depicts an outline of the time period until internationalization, international sales ratio and the ages of the INVs firms.

**Table 1.1 : Time Period until Internationalization**

Author/ year	Time period until internationalization	International sales ratio and age of the firm
<b>Oviatt and McDougall (1994)</b>	At inception	Not specified,
<b>Fan and Phan (2007)</b>		Not specified or at least 20% of production capacity to international markets
<b>McAauley (1999)</b>	Within one year after inception	Not specified
<b>McKinsey et al. (1993) Freeman and Cavusgil (2007)</b>	Within two years after inception	76% export ratio, Not specified
<b>Knight and Cavusgil (1996), Moen (2002), Knight Cavusgil (2004b), Mort and Weerawardena (2006), Servais et al. (2006) , Crick, (2009)</b>	Within three years after inception	At least 25% export ratio Not older than 20 years or establishment date after 1980 or 1990
<b>Zahra et al. (2000a)</b>	Within six years after inception	At least 5% of sales from international markets
<b>Gassmann and Keupp (2007)</b>	Within ten years after inception	At least one foreign country
<b>Covin et al. (1990)</b>	Within twelve years after inception	-
<b>Luostarinen &amp; Gabrielsson (2006)</b>	Not specified	Over 50% of sales outside home continent. Establishment date after 1985
<b>Gabrielsson et al. (2008)</b>	Flexible time period	Flexible export ratio

The following sections reveal the background scope of the study related to above-mentioned points.

#### **4. History of Halal and the Globalization of Halal Products and Services Companies in Malaysia**

The philosophy of Halal is as an essential way of life. It is a unique concept in Islam and it is not limited to the food industry (Shafie and Othman, 2006; Syed Marzuki, 2011). In addition, Islamic rules and manners mirror the it's values and ideas and govern every individual Muslims (Al-Harran and Low, 2008). The Halal concept ascribes the manner in which services and goods are produced and this is certified by the laws of Islam (Bohari *et al.*, 2013).

To fulfill the values of Islam, Halal certification has become a new benchmark to ensure that hygiene, quality, and safety conform to Islamic laws. Offering Halal certification began in Malaysia in 1971. The idea of Halal is not purely about a set of laws. In fact, it should be comprehended as an aspect of broader social phenomena (Dolan, 2010). Since the 1980s, Malaysian Muslims have considered Halal requirements important and make sure they fully comply with these laws (Fealy and Hooker, 2006).

Global trade and the creation of pluralistic communities have resulted in the migration of people and this has converted the environment into Halal communities. In other words, globalization has made possible the community's formation through the ideas in circulation. This situation has led to the argument that the Halal concepts are being globalized. For more than twenty years, through the process of globalization, the concept of Halal has become more and more important. The social concept of Halal is agreeable with the push of globalization (Dolan, 2010).

In Malaysia, various aspects of the Halal industry are still being handled by different agencies such as the Halal Industry Development Corporation (HDC), Global Halal Support Centre (GHSC), Halal industry training and services, Halal Certification, SMEcorp Malaysia, Malaysia External Trade Development Corporation (MATRADE) and Jabatan Kemajuan Islam Malaysia (JAKIM). The Halal Development Corporation (HDC) is one of the main institutions in the Halal industry and is fully government owned. It is connected to the Ministry of Finance.

Included in the HDC's functions are Halal industry development, effective use of the Halal brand and the issuance of Halal certification for products and services.

## **5. Halal SMEs Internationalization and National Goals in Malaysia**

The literature on internationalization has received sizable attention over the last few decades (Oviatt and McDougall, 1999; Beamish and Lupton, 2009; Ruzzier *et al.*, 2006; Yamakawa *et al.*, 2008). From earlier investigations in the internationalization of new ventures, international entrepreneurship (IE) field has been broadened (McGrath and MacMillan, 1992; Thomas and Mueller, 2000). While scholars in entrepreneurship have focused their studies on management and SME's creation, the international business investigators concentrated their works on the international activeness of multinational corporations. In this vein, the crucial role of SMEs internationalization has revealed on development of the national goals.

SMEs represent the majority of businesses in many countries around the globe. Ninety nine percent (99%) of Malaysian business enterprises are made up by SMES (Hashim, 2007). In other words, the internationalization of Halal SMEs can be viewed as one of the most significant areas of economic development. In fact, Halal products and services have been significant and profitable areas of international business. According to the third Industrial Master plan, it is considered one of Malaysia's economic growth engines by promoting the country as a global Halal business hub (Abdul, 2013).

The seventh Malaysian plan (1996-2000) witnessed a sustained and high level of macroeconomic growth, high price levels and a strengthening in international competitiveness (Mansur *et al.*, 2011). In addition, the 10<sup>th</sup> Malaysia plan will cover the years of 2011-2016 and the government of Malaysia intends to focus on providing support and incentives to firms that enter into international markets thereby increasing exports (Che Senik *et al.*, 2011). Small and medium enterprises (SMEs) have also played a crucial role in the Malaysian economic development (Zulkifli-Muhammad *et al.*, 2009).

## **6. Significance of Internationalization of Firms in Malaysia**

All around the world, internationalization has become one of the most significant strategies of growth for entrepreneurial firms (Beamish and Lupton, 2009; Lu and Beamish, 2001; Oviatt and McDougall, 1999; Peng, 2001; Ruzzier *et al.*, 2006; Yamakawa *et al.*, 2008). This process and situation makes it possible for economic growth by increasing international trade between many countries around the globe, and Malaysia is not an exception. The internationalization of Malaysia's companies have attracted significant attention especially from Halal product and service companies in recent years. The Malaysian government also concentrates on providing support and incentives for companies that enter global markets. (Che Senik *et al.*, 2011).

Over the years, Malaysia's performance in world trade has improved especially in exports, and international trade has generally been important for the economic growth of the country (Ahmed *et al.*, 2006). Some studies such as Anderson, Erikson and Lundmark (2006), Ahmed, Julian *et al.* (2006), Abdul-Aziz, Ngau *et al.* (2011), Che Senik, Scott-Ladd *et al.* (2011), Wahab (2011) and (Che Senik *et al.*, 2011; Senik *et al.*, 2010) have pointed out these trends in Malaysian's products and services companies. According to Chelliah, Sulaiman, and Yusoff (2010), there is a meaningful connection between internationalization and performance among Malaysian SMEs.

Furthermore, Malaysia aspires to change from a developing country into one with a fully developed economy by 2020 by increasing international trade. Therefore, Malaysia's economy with its rapid development in the context of macroeconomic endurance has been attracting international consideration (Mansur *et al.*, 2011).

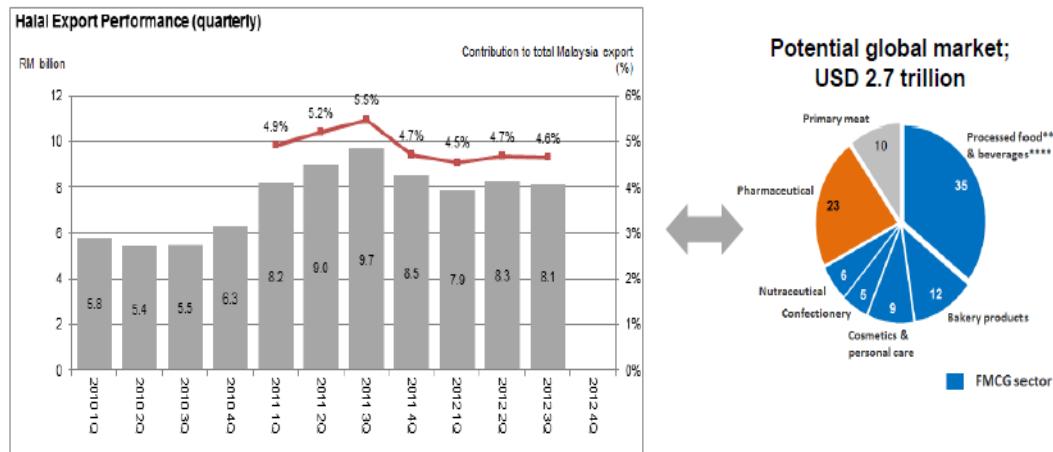
To support firms in their bid to become international, it will be necessary to know what knowledge is needed for its resources. It would be essential to know what kinds of capabilities would be needed for conducting business in international markets. It would be necessary to know the relationship between resources, capabilities and international performance in these kinds of firms.

Since Malaysia has been successful in increasing the internationalization of product and service companies to grow economically, so responding to the needs of vision master plan 2020 has led to increased attention in the relationship between resources and international performance with emphasis on international entrepreneurial capabilities of the INVs. As such, this research endeavors to inject significant perceptions into new resources such as technological knowledge and managerial knowledge, International Entrepreneurial Capability (IEC) and International Performance (IP) and explore how these new resources could raise the IEC to international performance standards.

## **7. Challenges and Internationalization of Malaysian SMEs**

Global markets provides both opportunities and challenges for firms that are active in international business (Xie and Suh, 2014). In line with it, to internationalization of Malaysian SMEs, they must deal with various challenges such as lack of market knowledge, technology knowledge, innovation, business competition and government policies that hold back their prospects in the global markets (Hashim, 2012). In this vein, INVs as a part of SMEs internationalization (Zahra, 2005a) also are not exempt from the above mentioned challenges specially, Halal INVs. For instance, the reports of Halal Development Corporation (HDC), Department of Statistic, JAKIM, Custom Department and MATRADE (Jawatankuasa Penyusunan Statistik Produk Halal) 2011 also show that most local Halal companies lack the ability to be competitive in global markets Figure 1.1. shows the situation of Halal export performance till 2011.

## Present situation



**Despite significant growth of Halal Export since 2011, capitalization is less than 0.5%**

From an average of 700 Halal exporters

- 200 MNC (71% of export value)
- 500 SME (26% of export value) → mostly local companies lack competitiveness to compete in the global market

Private and Confidential

Figure 1.1

1

Source: HDC, Department of Statistic, JAKIM, Custom Department & MATRADE

Addressing the issues and challenges of Halal in going global can relate to marketing, Abdul-Talib and Abd-Razak (2013) argued that marketing of Halal products has its own challenges. The role of International Entrepreneurial Capability (IEC) such as International Marketing Capability (IMC) for reducing and overcoming challenges faced by Halal INVs in international markets is very significant. According to Halim and Ahmad (2014), there is potential in Halal industry for developing, but it has not been entirely explored. In this case, the large number of world Muslim communities support this development based on an increasing Moslem population (1.8 billion in 2011). The current value of the Halal market is expected to reach USD \$ 2.3 trillion (Halim and Ahmad, 2014). Thus, it is important to recognize the issues related to international performance among the

Malaysian Halal INVs. This study is a suitable response to the lack of research about those issues that connected to Halal SMEs internationalization and their roles in Malaysian Halal INVs' performance.

## **8. Conclusions**

This study has revealed that the process of globalization has made International Entrepreneurship (IE) a significant and fascinating research topic at the junction of Entrepreneurship and International Business (IB). The interest area of investigation on IE has concentrated on SMEs internationalization as small and young companies such as Halal International New ventures (INVs) or Born Globals (BG) that are active in international business. Thus, the theoretical foundation of this research was a combination of the literature on entrepreneurship, strategic management and international business. This paper provides evidence and necessary information about the significant role of International New ventures (INVs) as Halal SMEs internationalization on international business performance through a review study of International Entrepreneurship (IE), INVs literature and SMEs internationalization as Halal products and services companies. It also introduced and showed the importance of connection between Halal internationalization of firms with achieving the national goals in Malaysia. Finally, the serious challenges are pointed out about the Internationalization of Malaysian SMEs such as lack of market knowledge, technology knowledge, innovation, business competition and government policies. In the following are discussed the contribution of the study.

The major contributions of the study are comprised of two sections, implications for Firms/ managers and implications for Policy Makers. At the first level as a micro level, this study is offered to the managers of Halal INVs a comprehensive picture from major roles of SMEs internationalization in enhancing their international business performance. It also supplies valuable perceptions into how they can deal with dynamic global marketplaces. At the second level as implications for Policy Makers such as governmental planners and top managers, the study provides a practical standpoint for them to make policy and plan for guiding Halal products and services companies to become international for devolving the

economy through increasing exports. Regarding to the literature of the study, Policy-makers can also create opportunities and formulate strategic plans that form the internationalization of firms for international business activities and managerial commitment to internationalization. As an example, they should support the local entrepreneurs to become involved in foreign experience and engage those who worked in a foreign company to find and develop their own company.

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