

# **Exploring the Opportunities and Perceived Success of Internationalization Strategies in Malaysian SME's**

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## **Abstract**

There is a complete transforming process all around the global economy. Technological displacement is displacing all the business activities into information oriented or information based activities. Internationalization has the great contribution in the fundamental changes which took place all over the world. In fact due to internationalization a revolution has been introduced globally. Due to the web there is availability of extended opportunities for Malaysian customer and small & medium enterprises (SME's). There is a need of an orderly frame work, due to limited research on the role of internet in international marketing. In order to have the better understanding to the role of internet in international marketing strategy, it is needed to examine the purpose for which SME's use the internet in the international marketing context. (Shanker & Meyer, 2009). This paper will be providing a significant contribution in the development of internationalization process among Malaysian SME's. This paper will also help Malaysian SME's to improve their internationalization strategies in contrast with the electronic commerce.

***Keywords: Internationalization, Internet, e-Commerce, Strategy, Malaysia SME's.***

# **Exploring the Opportunities and Perceived Success of Internationalization Strategies in Malaysian SME's**

## **INTRODUCTION**

It is the challenge of 21<sup>st</sup> century, for Malaysia to develop its learning curves and grow internationally, with the age of information technology. However it is important for the nation to participate in the new drivers and innovative ideas to the entire society. The efficient exchange to communication through technology can help the organization and SME's to make above average profits. So it is important to educate our practitioners and those students who will be manager sooner or later in order to learn all these technological tools to meet the global challenges. If these opportunities are not properly availed then it is the biggest economic threat to the nation to lack behind in the race of rapid technological changes. (Alemayehu, et.al, 2005).

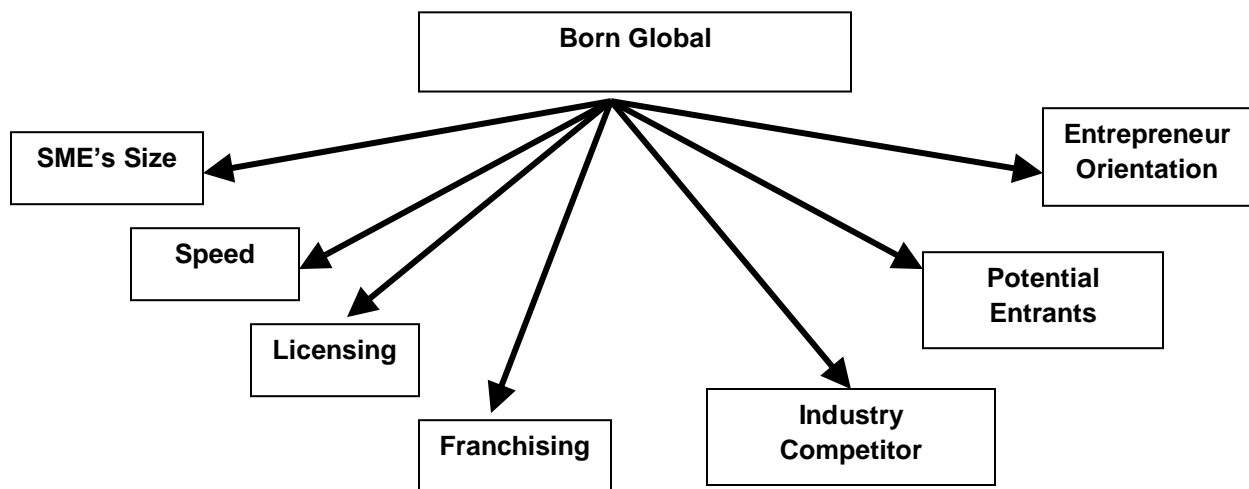
SME's make a significant contribution to the socio economic and political infrastructure of developed and developing countries as well as the nations in transition from command to market economies (Matlay & Westhead, 2004). Furthermore, a healthy and growing SME sector is perceived to be crucial for sustainable competitive advantage and economic development at local, regional and international levels (Porter & Kramer, 2006). The importance of SME's has grown enormously over the last twenty years; this real growth has been matched by appreciation of their role. In addition, SME's are reduced the average of unemployment, and they create new innovation. The definition of SME's in Malaysia depends on the number of employees ,where small business has 1 to 9 employees ,medium-size has 10 to 25 employees , and higher than these numbers become a big businesses, SME's aim at assisting developing countries to reduce unemployment rates without spending more capital, Characterized by geographical spread, which helps to reduce regional disparities, produce goods and services to the people in society who has low income and SME's Provide jobs for some groups, especially women and youth. The government in Malaysia tries to develop SME's to become strong businesses by establishing many organizations to finance the SME's like Social Fund for Development and some organization such as Small and Micro Enterprises Promotion Services, these organizations under the ministers of international trade.

### **SME's challenges**

Malaysian government is encouraging the local SME's by supporting them through consulting, funding, and training. But still there are many international threats and opportunities needed to tackle. In this paper we are discussing the concept of "Born Global" and the entire factor that can help Malaysian SME's to improve their international strategies in order to have better creditability internationally.

## Born Global Firms

The term “Born Global” was first used in an Australian report, (Rennie, 1993; McKinsey & Co., 1993), and it has been used and discussed together with similar concepts, for example International New Ventures, see (McDougall et al., 1994; Oviatt & McDougall, 1994; Zahra et al., 2000). Malaysian SME’s can efficiently become “born global”, and like wise these SME’s can accelerate process of accessing competitive advantages across national borders. On the other hand Malaysian SME’s needed to have entrepreneurial capabilities in order to provide firm value chain internationally. Malaysian SME’s can provide SME’s with better business models that allow them to be as efficient, effective and competitive as possible right from the beginning. It is difficult to expand the business rapidly though international expansion, due to the complexity and trade barriers, especially these foreign markets, are very difficult to manage. The term “born global” is just not only a term but a method, process or strategy which helps firms to learn about foreign markets in advance to succeed with international expansion. (Bals, Berry, & Hartmann, 2008). Given below is that chart how Malaysian SME’s can strategies its internationally through these given below categories.



### SME’s Size

SME’s size is one of the important factor to influence the international market. SME’s sized have increasingly been involved in international markets; base on the past literature it is found that there is a wide range of issues such as behaviors, strategies, and export development process. The internationalization which is also know as export process of SME’s has been linked to the SME’s decision to trade its product and services in overseas countries. On primary basis internationalization requires appropriate resources. It is not appropriate resources the SME’s cannot survive in a long run. On Secondary, basis managerial attitudes are needed in line with organizational size impact behaviors in international business. Thirdly, as according to the traditional impact on the

SME's growth life cycle, internationalization will not be undertaken until SME's grow enough in their domestic market. On the other hand it is important for these SME's to have enough growth rate in the local market and then only they can be a good player in the international market. The rapid pace of globalization coupled with increased computerization and advanced transportation systems has forced the SME's to look beyond their domestic borders (Suh, Bae and Kundu, 2007).

## **Speed**

Speed is another significant factor that helps the organization to grow internationally. The term speed is referring to at what speed these SME's can penetrate in the international market with certain amount of share in percentage. The speed from which a SME's becomes internationalized can also influence its internationalization process (Oviatt and McDougall 1994). International market internationalization speed can play a fundamental role in determining the international behavior of established firms, as it may help them generate a more complete knowledge of the sources of international competition (Autio et al. 2000). However, the analysis of the effects of first market entry speed has not attracted the same research attention as other aspects of the international strategy followed by established firms (Autio 2005; Zahra 2005; María Ripollés-Meliám, Martina Menguzzato-Boulard & Luz Sánchez-Peinado ,2007).

## **Licensing**

First and foremost, licensing is actually categorized as one type of planned channel where the technology transfer is done intentionally, according to a planned process and with the consent of the technology owner. Burgunder (2004) defined licensing as a form of strategic alliance which involves the sale of a right to use certain proprietary knowledge (intellectual property) in a defined way. The intellectual property may be registered publicly, in the form of a patent or trademark, as a means of establishing ownership rights. Or, it may be retained within the firm which referred to as know-how and it is commonly based on operational experience. According to Khalil (2000), the receiver purchases the right to utilize someone else's technology. However, Licensing in general is actually a written contract under which the (licensor) owner of a copyright, know how, patent, service mark, trademark, or other intellectual property, allows a licensee to use, make, or sell copies of the original. Such agreements usually limit the scope or field of the licensee, and specify whether the license is exclusive or non-exclusive, and whether the licensee will pay royalties or some other consideration in exchange. While licensing agreements are mainly used in commercialization of a technology, they are also used by franchisers to promote sales of goods and services.

## **Franchising**

Franchise business growing popularity and expanded rapidly in developing countries. It makes the country one of the franchise as a tool for achieving national

development goals. Organizations do efforts in order to increase the number of local investors in the global business through a franchise to be the most important agenda in national development. Package franchises trying to offer many facilities like mortgage guarantee business. However, franchising is a business package that has proven successful by looking at the experience of developed countries like the United States.

Franchising as it generally know today is a form of marketing or distribution in which a parent company customarily grant an individual or relatively small company the right or privilege, to do business in a prescribed manner over certain period of time in a specified place. The parent company is termed the franchisor; the receiver of the Franchisee privilege; and the right, of privilege itself, the franchise. (Charles, 1974).

### **Industry competitors**

Industry is just like a war among the competitors and when dealing with international companies it seem that there is an international competition and if one who do not fight very well can be killed by other competitors. Competitors have many ways of attracting their customers though advertising, introducing new products, more attractive customer service and warranties, and price competition to improve the standing and market share, which is now an international market. Porter & Kramer, (2006), stated that the intensity of the rivalry is the consequence of the variable like equally balanced companies; slow growth rate locally and internationally, high fixed cost, lack of product differentiation, overcapacity and price cutting, diverse competitors, high stakes investments and the high risk of industry exit. These are factors which Malaysian SME's should take caution, in order to survive in the international market in a long run (Jesse, 2006).

### **Potential Entrants**

Threats of new entrants into an industry depend largely on barriers to entry. As discussed by Jesse, (2006); Dirk, Bernhard & Hanna, (2006) that Porter identifies six major barriers to entry (Porter's Five Forces Model) state that:

- i. Economies of scale, or turn down in unit costs of the product, which strength the entrant to enter on a large scale and risk a strong reaction from firms already in the industry, or accepting a disadvantage of costs if entering on a small scale.
- ii. Product differentiation, or brand identification and customer loyalty.
- iii. Capital requirements for entry; the investment of large capital, after all, presents a significant risk.
- iv. Switching costs or the cost the buyer has to absorb to switch from one supplier to another.
- v. Access to supply channels. New entrants have to establish their distribution in a market with established distribution channels to secure a space for their product.
- vi. Cost drawback independent of scale, whereby established companies previously have product technology, access to raw materials, favorable sites, advantages in the form of government financial support, and experience (Porter 's Five Forces Model).

## **Entrepreneur Orientation (EO)**

International entrepreneurship orientation help the SME's to explain how firms can face the double liability of newness and foreignness manage to operate successfully in international markets almost from the start of their business activity. It is the type of entrepreneur presentation which firms needed to give in the beginning with losing its profitability from the day first. These firms are known as international new ventures or global new ventures. An important contribution of past international entrepreneurship research has focused on the recognition of the limitations arising from the sequential process of internationalization perspective to explain the exceptional speed with which certain new firms become internationalized (María et al.,2007).

International entrepreneurship orientation comes into view as a new aspect in the new studies of SME's internationalization. This new aspect is focus on the variable that can play an enablers role towards a fast track internationalization process, which will also accelerate the internationalization process (Oviatt and McDougall 2005).

SME's developing an EO perceives new and innovative business opportunities more rapidly than their competitors, and their proactive nature and enthusiasm to take more risks facilitate the exploitation of these opportunities prior to their competitors. (María, et. al, 2007). Knight and Cavusgill, (2004) have also argued that entrepreneurial orientation should be involved in the development and enactment of key organizational routines to succeed in international markets.

## **Conclusion**

The purpose of this paper is to present the opportunities for Malaysian SME's internationally. On the other hand, this paper explores some useful implication for theory and practice. Malaysian SME's should be appreciated to proactively recognize and control the sources of all the potential opportunities which are available in international markets, such as Europe, America, Middle East and other potential counties. It is needed to have strategic approach and accordingly efforts are needed in the similar directions. There are some other factors like Malaysian government support and policies are also needed to be reviewed in order to support these SME's. It is recommended that future research find more avenues to help the Malaysian SME have to perform internationally and participate vitally in the Malaysian economy to meet the vision 2020 challenges.

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