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## Strategic Orientations of SMES Internationalization: Moderating Effect of Firm Size

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### Abstract

The internationalization of small and mid-size enterprise (SMEs) has grown rapidly since last two decades for its potential to undertake international business with recognition. Therefore, it is important for SMEs to respond quickly to the changes in various complexity and global market. However, this small and medium-sized enterprises (SMEs) faces varies of challenges that results in difficulties in business activities and hindering the success within the international platform. Therefore, a survey from 120 international enterprises in Selangor state Malaysia was conducted to analyze the influential factors that potential strategize the internationalization of Small and Medium enterprise. This study used Statistical Package for Social Science (SPSS) to analyze the multiple linear regression to test three hypotheses on the determinants of internationalization of SMEs and one hypothesis on the firm size as the moderating effect of SMEs' internationalization. The result from the survey discovered that entrepreneurial orientation, market orientation, and global mindset have positive relationship with the internationalization of small and medium entrepreneur with entrepreneurial orientation to be the only significant factor that contribute to the influence of SME internationalization. While the firm size was not found as moderating factors of SME's internationalization.

**Keywords:** SME, Internationalization, Entrepreneurial Orientation, Market Orientation, Global Mindset, Firm Size.

### Introduction

Small and medium-sized enterprises (SMEs) are used to operate in their home countries or local markets for the reason that they already understand the need and habits of their customers and often producing and bring products and services that suit their customers. Henceforward, SMEs are in the need to develop and improve their existing commotion for them to persist competitively as well as snowballing their market share in the

domestic and international platform (Noraini & Yusuf, 2013). SMEs show a significant role as they generate substantial revenue, export earnings, and embody a main source of employment. Malaysia is one of an emerging country that provides full support to SME to grow internationally with its numerous strength positioned in Southeast Asia. Above all, political immovability, an outstanding physical infrastructure, a skillful, culturally diverse, and multilingual personnel were the main contributors.

According to SME Corporation Malaysia (2018), SME Corporation Malaysia is the central coordinating agency (CCA) under the Ministry of Entrepreneur Development Malaysia (MED), which manages the enactment of the SME Development Program through all associated Ministries and agencies. The contribution of gross domestic products (GDP) has increased steadily to 37.1 percent in 2017 as compared from only 36.6 percent in 2016 (MALAYSIA, 2018). SMEs' GDP increased by 7.2 percent higher than Malaysia's GDP growth of 5.9 percent in 2017.

*Table 1: The Total of SMEs by Sector*

<b>Sector</b>	<b>Percentage of SMEs</b>	<b>Number of SMEs</b>
<b>Services</b>	89.2%	809,126
<b>Manufacturing</b>	5.3%	47,698
<b>Construction</b>	4.3%	39,158
<b>Agriculture</b>	1.1%	10,218
<b>Mining and Quarrying</b>	0.1%	865

Sources: Department of Statistics Malaysia

Selangor is one of Malaysia's 13 states, with the highest proportion of SMEs in Malaysia, comprising of 179, 271 establishments (Fund, 2019). The largest number of SMEs was in the services sector with 89.2 percent of total establishments (809,126 SME's).

Internationalization is historically seen not as a strategic requirement but as a choice for expansion. However, the globalization of markets and competition has started to threat small companies when international players enter their domestic markets (Rutihinda, 2011). It provide corporations with future advantages, which diminishes the value of domestic and international borders (Ngunguru, 2013). The internationalization for SMEs is more challenging than large firms because of their inadequate capabilities and resources. On the other hand, SMEs are trying to build specific capabilities for effective internationalization or find sidesteps to internationalization within the possible time (Pickernell, Jones, Thompson, & Packham, 2016). Che Senik, Mat Isa, Md Sham, & Ayob (2014) observed that enhanced globalization and easier access to information because of information and communication technology (ICT) transmission have provided SMEs with more prospects to come into international.

Technological innovation and networking have made it easier for businesses to do business with each other. The globalization of major corporations and service providers has given rise to expanded opportunities for SMEs to participate in various parts of the supply chain of these firms (OECD, 2017). Modern and innovative management approaches provide additional methods for SMEs to engage in business with larger firms. Reducing language barriers and lower travel costs have also made internationalization accessible. These features provide significant worldwide prospects for SMEs, which often have greater elasticity and are better able to internalize market information than large firms.

In 2018, SMEs' exports reported lower growth rate of 3.4%, preceded by the manufacturing with 5.1% and services with 2.0% sectors. The agricultural sector registered a

negative growth of 2.0 percent in 2018 due to a decline in exports of vegetables, bananas, pineapples, and other tropical fruits. Moreover, exports to the manufacturing sector have been strengthened by drinks and tobacco, additives, consumer goods, and miscellaneous products of produce. Travel, other business services, and transport activities prompted to exports in the services sector. Overall, the contribution of SME exports to total exports stood at 17.3%, respectively. 8.7% of the share came from the services sector, 8.4% from the manufacturing sector, and 0.2% from the agriculture sector. Despite their huge number, the export input of SMEs is still low. For this reason, the local SMEs must aim for export market to ensure business sustainability, to pursue the globalization agenda.

### **Literature Review**

Many studies and analyses on SMEs internationalization trailed over the years. Several factors have been pointed out numerous times yet there are some SMEs that unable to move forward and depending on its domestic success. Many SMEs face analogous challenges, for example, limited access to financial capital, weak economic infrastructure, fierce competition, and lack of training support (Alyae & Al Mubarak, 2016). Furthermore, these SMEs also face difficulties in understanding the factors that might provide them proficiencies to internationalize.

Additionally, SMEs have greater a role in contributing to the economy as Malaysia goes on board on the journey towards accomplishing Vision 2020 (Chin & Lim, 2018). The role of SMEs is crucial to the economy and social development as it contributes to nearly 39% of Malaysia's GDP and 65% of the nation's employment. The percentage indicates that the SMEs' contribution to the country's GDP is still relatively low, as non-SMEs make a major contribution to GDP of almost 61% (Worldbank, 2016). A reason for the low contribution is their dependency on the domestic market. They are not ready to pursue the international platform which limits their sales and profit which in turn leads to low contribution to Malaysian GDP.

On the other hand, there are some SMEs that are already entering the international market and able to sustain in that market and compete with all the international companies. It indicates that it is possible to enter and compete internationally to increase the firm's revenues besides its contribution to economies. However, it has been found out that there are also SMEs that are not ready to go international because of a lack of market information, size of the firm, and lack of government support. SMEs are likely to be forced out if they do not improve their competitiveness in the gradually rising world of globalization. The existing problems should be addressed to boost the SMEs' contribution to the Malaysian GDP as outlined in the 2012 SME Master Plan targeting 41% GDP by 2020 (Myt et al., 2020).

Besides, Malaysia External Trade Development Corporation (MATRADE) also urges SMEs to take in exporting in their business operation (MATRADE, 2019). This issue has been highlighted because local SMEs only contributed 18% in export regardless of making up 98% of Malaysian business establishment (Musa, 2018). Other than that, SMEs cannot ignore the export business if they hope to continue significant in the industry for a long time. Therefore, SMEs should understand more about the potential of exporting to their business and those factors influenced the internationalization of their businesses to survive in a rapidly changing market. The objective of research is to identify the relationship between entrepreneurial orientation, market orientation, global mindset, and internationalization, to determine the most significant factor that influences the internationalization of SME and to examine the moderating impacts of firm size on the relationships between entrepreneurship orientation, market orientation and global mindset, and internationalization.

### ***Internationalization***

In the last two decades, interest in the international operations of business has increased (Welch & Luostarinen, 1988). The several components of concern have both stimulated and discouraged academic activity in the field. According to Kuivalainen, Sundqvist, Saarenketo, & McNaughton (2012), it is difficult to address 'internationalization theory' at the very outset, since even the concept was not well defined. While commonly used, clarity is needed on the word 'internationalization.' This appears to be used loosely to define the external movement of the global activities of an individual company or broader grouping. An important explanation for embracing a wider concept of internationalization is that all sides of the mechanism, for example, all internally and externally, have become closely related to the complexities of international trade. Thus, providing universal descriptions of the ongoing processes would be not only unnecessary but also impossible. First of all, current processes such as globalization, regionalization, universalization, internationalization, transnationalization, Europeanisation, or integration should also be taken into account from a given perspective (Korsakiene & Tvaronavičiene, 2012). Daszkiewicz & Wach (2012); Johanson & Wiedersheim-Paul (1975); Knight (2004) discussed that, when going to micro-level, the process of internationalization (company internationalization), it is evident that the 'sensu largo' business internationalization is the widest coin, covering all the activities, rates and degrees of any business unit's internationalization operations. Continuous internationalization and globalization processes mean both opportunities and risks to SMEs.

Opportunities exist in export capability, new entrants to the market, and international cooperation. The main reason for the internationalization of SMEs is the need to boost the company's competitiveness, first and foremost is the goal of entering existing and larger markets (Hilmersson & Johanson, 2016). Most theoretical approaches are fundamental to the idea that the process of internationalization of a business is determined by its development. Recent studies have shown that various variables decide internationalization, both internal and external to SMEs. It is fair that if SMEs' management does not adequately distinguish the discrepancies between their home markets and prospective foreign markets, their ability to seek internationalization would be obstructed.

International expansion is important for SMEs that historically have a minor financial base, a local emphasis, and a limited geographical reach. The importance of SMEs expanding is also expressed in its growing position in international markets. Local researchers have noted that the determinants of SMEs' internationalization in Malaysia remain an unfulfilled void, specifically the literature that links international entrepreneurship and strategy in emerging economies. Also, most companies were unable to prepare the long-term plans that were deemed key to internationalization. For that reason, SMEs in Malaysia also point out that they are far behind compared SMEs in Asian countries, for example, Taiwan, Korea, or Singapore, in terms of innovation, speed of production, and large choice of goods for customers. The study of the collected works on SMEs in Malaysia indicates that there is a need to discover the factors that affect internationalization in a wide range of fields. There are limited number of factors debated and it is not conclusive in enlightening the landscape of internationalization of SMEs in Malaysia.

### ***Internationalization Theories and Models***

Several models illustrating how SMEs compete globally have been published with ideas that put forward to understand how businesses are internationalizing, representing various approaches to the international markets (Whitelock, 2002). Moreira (2009) previously



discussed the neo-classical and macroeconomic models centered on the country level and how international business was affected. However, the research, yet, has moved from a country perspective to a microeconomic perspective and is now evolving towards a business perspective. The existing conventional theories of internationalization include Uppsala model, network theory, and the born-global firms. In the Uppsala model it suggests that the level of risk varies due to changes in uncertainty and degree of commitment during the internationalization process. Thirawat (2017) observed in the Uppsala process of the internationalization model, the firm slowly increases its international participation by considering the following stage: (1) no normal export practices (sporadic exports), (2) exports by independent agents (export modes), (3) establishments of an international sales division and (4) international production or manufacturing units.

Despite the fact, Network theory explores industrial networks using three variables: actors (individuals, companies, or groups), activities, and resources. The network theory of internationalization is an extended form of the process of internationalization (Uppsala model) and defines the industrial markets of SMEs as business networks based on the principle of resource dependence. Hosseini & Dadfar (2012) mentioned that the network-based theory emphasizes the interaction between a group of actors, such as competitors, customers, suppliers and distributors, who provides an overall network instead of emphasizing solely on the business. The network approach offers a clearer picture of the internationalization of SMEs. The local network of the business can be a starting point for the business to become internationalized. By hitting new countries and wider markets, companies have a greater opportunity to establish new relationships that will allow them exposure to the market of other countries. As a result, the process of internationalization led to the relationship and the evolution of the company's network. When and a business

born global, firm can be described as has pursued the dream of being global and rapidly growing without any previous long-term domestic or internationalization period. International new ventures or born global are the most common trends of internationalization. A Born global is a firm that expands into international markets from or near their native land which classified into four separate groups, based on the number of value chain operations carried out in tandem with the number of countries involved (Oviatt & McDougall, 2005). Globally born firm possess unique strengths, focus on specific global market segments, highly customer-oriented, and their vision and expertise of the entrepreneur are of crucial importance.

### ***Entrepreneurial Orientation***

Results obtained from a sample of 161 Mexican SMEs using SEM-PLS analysis show that the International Performance of this kind of businesses is favourably influenced by their Network Capability and International Entrepreneurial Orientation, but not by their International Market Orientation. Similarly, it is verified that interdependence relations exist among the explanatory variables of International Performance of SMEs, where positive impact of International Entrepreneurial Orientation is observed on Network Capability and the International Market Orientation of SMEs.

Entrepreneurial orientation is important as the part of businesses to demonstrate constructive and innovative actions and to manage risk in order to establish and maximize growth opportunities (Dickson, 2004). The orientation of entrepreneurship as a strategic model, the practical framework of which incorporates certain firm-level outcomes and management goals, principles, and attitudes held by the company's top-level managers.

Miller (1983) discussed that *"Entrepreneurship is one that invests in product market creativity, undertakes rather risky activities, and then comes up with" proactive "inventions and beats up competitors."* It was also supported in a study using a three to five-dimension multidimensional model which include innovativeness, pro-activeness, and risk-taking that was widely cited dimensions of entrepreneurship orientation suggested by Miller in 1983. Miller & Friesen (1982) also discussed in their paper that such three dimensions are part of the eleven conceptual dimensions of "entrepreneurship.", Entrepreneurship orientation, therefore, includes a willingness to create and revitalize productivity and business, to take chances in the exploration of new products, services, and markets, and to be more comprehensive of emerging business opportunities than their rivals.

Through innovation, wealth is created when existing business processes are disrupted by the development of new products or services that transfer capital away from established firms and enable new firms to expand. While pro-activeness shows how businesses react to market opportunities when entering a new sector or product category; pro-activeness exemplifies the process by which businesses take advantage of new opportunities to "transform the environment" in an advantageous way (Lee & Peterson, 2000). It creates a process of preparation and response to potential needs by businesses pursuing new markets that may or may not be connected to their current business line, launching new goods or brands ahead of the competition, and excluding transactions that are in a mature or decreasing life-cycle period (Kreiser et al., 2010). By risk taking, an entrepreneur-oriented companies incur heavy debts or make substantial resource investments, to generate high returns by exploiting business opportunities. Entrepreneur-oriented companies are generally characterized by risk-taking actions, such as dealing with financial pressure or making significant investment in resources, to generate high returns by taking advantage of market opportunities (Hosseini et al., 2016).

In this regard, research has shown that SMEs with a strong entrepreneurship orientation had better export output than businesses with a weak entrepreneurship orientation (Mostafa, Wheeler, & Jones, 2005). This is supported by Zahra, 2015 saying that, studies of the three dimensions of entrepreneurial orientation (innovation, risk taking and pro-activity) that has been conducted in developed and developing world contexts has connoted a high level of reliability and validity. Therefore a hypothesis is developed to examine the significant of entrepreneurial orientation toward the internationalization of SMEs. H1: The relationship of entrepreneurial orientation is significant towards the internationalization of SMEs.

### **Market Orientation**

Using a sample of 156 Turkish firms that operated during the Arab Spring in the Egyptian market between 2010 and 2015, we find that the market-oriented firms are more flexible in their market exit decisions than less market-oriented organizations. (Serdar, 2018). The data were gathered from 101 Finnish SMEs in the wood-product industry, and analyzed with AMOS using path analysis. The results show that marketing capability mediates the effect of market orientation on firm performance. For internationalized firms, market orientation and marketing capability are crucial to their success in foreign markets. However, digitalization has no effect on firm performance with internationalized firms. With other firms, the effect is direct and significant (Joensuu, 2018)

This study highlights the importance of customer knowledge, networking and cultural knowledge for foreign small and medium enterprises (SMEs) in the initial stages of internationalization. It proposes that a holistic market sensing of the target market can be achieved as the three constructs (customer knowledge, networking and cultural knowledge) contribute to the market orientation particularly to the internationalization of firms in developing economies (Billore, 2020). Results obtained from a sample of 161 Mexican SMEs using SEM-PLS analysis show that the International Performance of this kind of businesses is favourably influenced by their Network Capability and International Entrepreneurial Orientation, but not by their International Market Orientation. Similarly, it is verified that interdependence relations exist among the explanatory variables of International Performance of SMEs, where positive impact of International Entrepreneurial Orientation is observed on Network Capability and the International Market Orientation of SMEs.

Almost all companies see Market Orientation as crucial for their decision-making activities for it provides better understanding of their customers and other stakeholders in the market and increases their performance (Aminu, 2018; Troilo, 2012; Joensuu-Salo et al., 2018; Baker & Sinkula, 2009). Market orientation is a company-wide culture that places customers at the center of a successful business with the emphasis on collection and dissemination of market intelligence that will enable a business to understand and satisfy customer needs better than competitors, while effectively coordinating all the business internal functions to deliver long-term value to customers, the business and other stakeholders. Raju et al (2010) described market orientation as an organization culture that produces the most productive and efficient behaviors required for the development of superior value for the customer and thus a continuous superior output for the company. It is also perceived as "the organization-wide generation, dissemination, and responsiveness to market intelligence" Scholars have identified different elements of market orientation such as customer orientation, competitor orientation, and inter-functional coordination (behavioral components).

A business is customer-oriented if it knows its target audience well enough and generates consistently superior value for it. A consumer-focused organization obtains business information and behaves accordingly. To be effective in a competitive market, SMEs in all sectors must demonstrate a clear customer orientation (Kaldeen, 2019). SMEs in Malaysia need a strong market intelligence program to gather information about their customers for optimal results, identify their needs and use the knowledge to serve them better and more effectively than competitors, in line with the views of some analysts. While competitor orientation is apprehensive when it comes to getting and sharing business-wide information about target market rivals. A market-driven approach to marketing will strike an equilibrium between a firm's sensitivity to the needs of consumers and tracking the activities of competitors (Genc et al., 2019). Collecting and using business and competitive knowledge is essential to recognizing the needs of consumers and thinking about the tactics of the competitors. SMEs in Malaysia are also expected to track and investigate the behaviors and strategies of competitors. The businesses will continually define, analyze, and compare the strengths, weaknesses, and strategies of competitors (Collinson & Houlden, 2005). The element of Inter-functional coordination, characterized the firm as an organized use of organizational resources to build superior value for clients (Ismail et al., 2017). In Malaysia context, many SMEs are still not well structured as some of them do not have a marketing department, leading to non-marketing professionals supervising marketing activities and poor market results (Mokhtar et al., 2014). As a result, through promoting a market-oriented



culture, managers may facilitate the development of core skills that enable international competitiveness, such as market sensing, customer linking, and channel bonding. This helps the company to resolve its competition by building and maintaining long-term relationships with its suppliers, customers, and distributors, hence increasing international business efficiency. Thus, second hypothesis is developed to associate the significant of market orientation and internationalization. H2: The relationship of market orientation is significant towards the internationalization of SMEs.

### ***Global Mindset***

Silong et al (2014) identified the concept of global mindset is categorized into three separate types: ethnocentric (home country perspective), polycentric (host country perception), and geocentric (world thinking). Global perception also refers to the willingness to perceive global possibilities intuitively. This helps those who have it to function successfully wherever they are in the world. It has the ability to influence individuals, groups, organizations, and structures that have various intellectual, social, and psychological experience or knowledge from your own (Gollwitzer, 1944). Growing numbers of studies have seen strategic thinking or cognitive abilities of key decision-makers as significant success factors that affect organizational outcomes (Harveston et al., 2000). Entrepreneurs with a global mindset tend to see the world in a different way from entrepreneurs who specialize on the local market. Besides, firms with a global mindset recognize diversity and heterogeneity as a source of opportunity. Felício et al (2013) mentioned internationalization derives from a need to diversify risks and broaden horizons to other markets. This engine of internationalization, apart from the need for capital, relies on a global mindset (Felício et al., 2013). Many findings affirm the relationship between global mindset and the positive internationalization of businesses.

More strategic thinking inside the company encourages the development of a multinational business model in developed markets, the penetration of new markets and the adoption of a global strategy (Harveston et al., 2000). It is also reflected a manager's openness to and awareness of cultural diversity and the ability to handle it (Nummela et al., 2009). Besides often mentioned being quite like international orientation, it seems similarly close to an international entrepreneurial orientation. José Augusto Felício, Duarte, & Rodrigues (2016) assumed that the process of internationalization requires a global mindset among managers. Considering that a significant proportion of businesses in all economies are small, evaluating the effect of cultivating a global mentality in these firms and how this positively affects the internationalization behavior of these firms will help to build on what is now known about the internationalization of small firms (Sutanto & Indrawati, 2016).

According to Guy & Beaman (2003), organizations with an ethnocentric orientation base their attitude towards their country of origin as a single point of reference, to the point of presumptuous national supremacy. Organizations that use this ethnocentric approach usually have an eye on foreign approaches to maintain domestic influence and duplicate home-country structures and procedures abroad. A business will export its goods and services to foreign markets, with little to no alteration of specifications, designs, and packaging. This centralized strategy is advantageous to the company because it will produce lower operating costs even if, due to low local responsiveness, they can lose sales to competitors. A polycentric global mindset approach, are likely to follow multinational strategies that accentuate global decentralized and autonomous operations. Local responsiveness is much more important in this approach than operational costs (Guy & Beaman, 2003), While, Geocentric corporations

play down national and cultural diversity and presume a common set of principles regulating human interaction (Guy & Beaman, 2003). This method establishes a regional network and preference for implementing a transnational strategy that is integrative and interdependent and is the most appealing solution because it is intended to minimize cultural myopia and increase local response.

The relevance of previous study on the global mindset, urge the researcher to develop a hypothesis to prove the significant of global mindset and internationalization in Malaysian context. H3: The global mindset is significant towards the internationalization of SMEs.

The results of structural equation modelling show that Chinese SME managers' global mindset has a positive effect on both international networking and knowledge acquisition activities, which in turn have positive effects on the development of international opportunities. The findings suggest that SMEs, while going through the internationalization process, rely extensively on social interaction with foreign business partners to obtain knowledge of the customers and institutions in the foreign market. (He et al 2020). Another results showed that the firm's experience in international markets (measured as the number of years in foreign countries) has a positive relation to corporate global mindset. Developing a corporate global mindset should help Brazilian franchises to grow internationally. The findings indicate that Brazilian franchisors fall behind their foreign counterparts in international experience, which affect the skills, knowledge, disposition and organizational structure needed to be successful outside their home market. (Galhanone et al 2020). This study confirms the continued relevance of the global mindset concept. Furthermore, it indicates the connection between global mindset and entrepreneurial decision making and that their joint effect is relevant when explaining entrepreneurial internationalisation. (Torkelli et al. 2018). Based on an empirical study of eleven SMEs headquartered in Germany, the paper finds that individual global mindsets (i.e. the global mindset of managers taking internationalization decisions), is a prerequisite for SME internationalization, while a corporate global mindset (i.e. the global mindset of the whole organization), is a result of internationalization, promoted in change projects (Lappe, 2017)

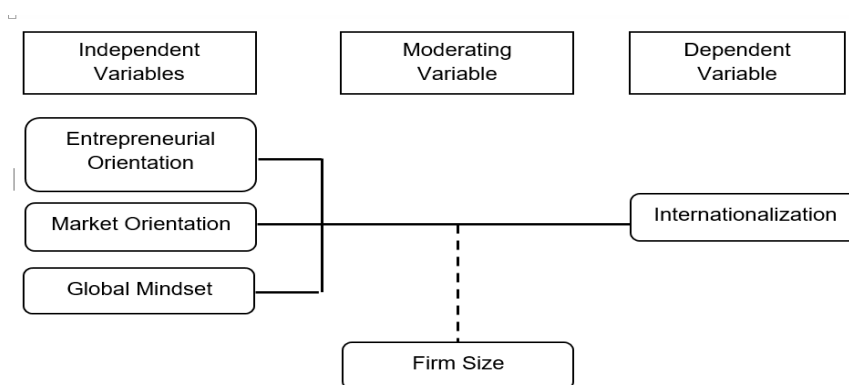
### ***Firm Size***

In the association of the significant of entrepreneurial orientation, market orientation and the global mindset on the internationalization of SME, there is another variable should be taken as the moderating variable. The firm size will influence the internationalization of SMEs. Monteiro (2013) found that larger firms were more globally competitive than smaller companies as they gained more financial and administrative capital, increased manufacturing capability, increased economic efficiency of sizes, and more likely to be correlated with lower rates of perceived risks in global operations. Larger companies had a higher degree, better trade balance and more strategic edge of internationalization relative to small enterprises. The hypothesis that firm size is positively correlated with export activity is frequently brushed aside and has prompted both scholars and public sector officials to concentrate attention on seeking ways to enhance the international trade of smaller firms. The topic of internationalization has confirmed that going international is a more probable choice for larger firms rather than small ones. The indicator of the firm size most used is the number of workers followed by the number of sales (Ruzzier & Ruzzier, 2015). Yet, amid the presumed significance of size and the abundance of research on the subject, there seems to be little agreement on whether the size is related to export performance. (Calof, 1993), (Marco &

Francesco, 2016). Therefore, the fourth hypothesis was developed to examine whether the firm size will moderate the relationship of the three predictors (entrepreneurial orientation, market orientation, and global mindset) and internationalization. H4: Firm size moderates the relationships between the predictors (entrepreneurial orientation, market orientation, and global mindset) and internationalization.

### Proposed Theoretical Framework

This study established a conceptual framework by adapting the framework formed by Saad (2011); Tschida (2010). Figure 1 demonstrates the proposed theoretical framework. The framework consists of three independent variables from entrepreneurial orientation, market orientation, and global mindset that influence the internationalization of SMEs. Firm size is advocated as a moderator variable on the internationalization. The moderator variable was adopted from Chelliah et al (2010) based on a previous study.



**Figure 1: The Proposed Conceptual Framework: The Moderating Effects of Firm Size on the Internationalization of Small and Medium-sized Enterprises (SMEs).**

### Research Methodolgy

The research emphasis on the moderating impact of the firm scale on the internationalization of SMEs in Selangor. The overall number of SMEs in Malaysia is 907, 065 firms. Selangor is chosen as the focus of the study as Selangor has the highest concentration with 19.8 percent of the total number of SMEs in Malaysia. The causal research design was used in this research to describe various aspects of the phenomenon. Data used throughout research was collected through the distribution of questionnaires through email to SMEs in Selangor of Malaysia agreement on their consent. The questionnaire included a closed-ended question using the Likert Scale 5-point to evaluate how much the subject agrees or disagrees with such statements on a five-point scale ranging from 1 to 5. Survey was allocated to two (2) sections. Section 1 focuses on the demographic background of the company while Section 2 concerning the factors that influence the internationalization of SMEs, entrepreneurial orientation, market orientation, and global mindset. The questionnaire was constructed in both English and Malay languages to prevent misconception of the questions posed and to avoid the language barrier problem which would influence the rigidity and effectiveness of the answers obtained from the respondents.

Selangor was chosen as the focus of the study as Selangor is the largest SME with 19.3% with 179, 271 businesses. The study's target population is the Malaysian SMEs that are involved in internationalization. However, this study focuses only on a sample size of 400 SMEs in business manufacturing and services sectors. Eventually, only 120 out of 400

enterprises manage to response due to coronavirus outbreaks. Simple random sampling is conducted to select data research. The assessment of sample size is adversely influenced by a variety of variables that must be addressed around the same time.

### **Analysis and Findings**

The findings of the study were demonstrated through an analysis of the entire question by using a statistical test such as Pearson Product-Moment Correlation Coefficient, Multiple Regression, and Hierarchical Multiple Regression. 400 sets of questionnaires have been distributed to the SME Corporation. Only 120 questionnaires were returned which represent 30% out of total questionnaires. Most of the respondents were manufacturing firms with a percentage of 59.9% while the remaining 40% are services firms. The total annual sales have been categorized based on the size of firms which is from large to micro size. 52 respondents accumulate small annual sales (43.3%), 43 respondents were medium annual sales with 35.8%, 21 respondents were large annual sales (17.5%), and the remaining 4 respondents accumulate micro annual sales (3.3%). Most of the international business transaction is conducted with Asian countries totaling 65 respondents with the percentage of 54.2, followed by ASEAN countries with 53 respondents (44.2%) and there are only 2 (1.7%) transactions with North America countries. Additionally, respondents also were asked for the entry strategies they applied when entering an international platform. Majority of respondents used exporting or importing strategies which contribute to the highest percentage with 98.3%, followed by a joint venture with 71 respondents (59.2%), licensing or outsourcing with 44 respondents (36.7%), franchising with 39 respondents (32.5%), and only 16 respondents used wholly-owned subsidiary entry strategy with the percentage of 13.3%. On the other hand, 37 respondents were in the industry for 6 to 10 years (30.8%), followed by 32 respondents with 11-15 years industry experience (26.7%), another 23 respondents have experience for 16-20 years, 18 respondents have more than 20 years' experience, and only 10 respondents have been in the industry for 2 to 5 years. Besides, most respondents (72 respondents) are a private limited company, 26 respondents are sole proprietorship, and the remaining 22 respondents are a partnership. Lastly, 108 out of 120 respondents were Bumiputera companies and the remainder 18 respondents were non-Bumiputera.

### **Factor Analysis and Reliability Analysis**

The key component of factor analysis with varimax rotation to analyze the factor structure of the 42-item of the internationalization. The three-factor framework was developed to explain 77,568 percent of the total variance. The results indicate that the KMO value .811 suggesting a correlation matrix is sufficient for factor analysis to be performed. Besides, the MSA result ranged from .697 to .978, indicating that the data matrix was sufficient for the study of the component. Bartlett's Test of Sphericity displays a significant value where the approximate Chi-Square is 11705.040.10 with a probability of less than 0.01. The outcomes illustrate that 3 items were omitted due to high cross-loading and items came from different conceptualization. The items were omitted because its anti-image correlation value was lower than 0.5 and its initial Eigenvalues were lower than 1.0. So, the items were removed because they dispute the original concept.

**Table1: The Comparison of Cronbach’s Alpha Coefficient**

Variables	No of Items	Initial Cronbach’s Alpha	No of Items After Deleted	Actual Cronbach’s Alpha
Entrepreneurial Orientation	15	.940	15	.988
Market Orientation	15	.944	14	.989
Global Mindset	12	.907	10	.958

Table 2 presents a comparison of the original and actual reliability of the Cronbach alpha coefficient. The value for entrepreneurial orientation is 0.988, market orientation is 0.989 and global outlook is 0.958. The value signifies that the measurements of all items have strong internal reliability and consistency between the 39 objects. Based on the reliability analysis, it shows that factor analysis and the measurement after deleted dew items were highly reliable. Accordingly, all 39 items were completely valid for further analysis.

**Normality Analysis**

The normality analysis determined by the value derived from skewness and kurtosis analysis. The outcome for entrepreneurial orientation, market orientation, global mindset, and internationalization shown in Table 12 below. Based on the skewness and kurtosis of the data, the range falls within  $\pm 3$  which in an acceptable range, so, the data is normal. To conclude, the sample data used in this study is normally distributed.

**Table 2: Normality Analysis**

Variables	Skewness	Kurtosis
<i>Independent Variable</i>		
Entrepreneurial Orientation	-.810	-.379
Market Orientation	-.912	-.172
Global Mindset	-1.071	.461
<i>Dependent Variable</i>		
Internationalization	.603	-.253

**Correlation Analysis**

The correlation analysis in Table 3 shows the relationship between the dependent variable and three independent variables comprised of entrepreneurial orientation, market orientation, and global mindset which was investigated using Pearson Correlation Coefficient.

**Table 4: Correlation Analysis (n=120)**

	INT	EO	MO	GM	FS
Internationalization (INT)	1				
Entrepreneurial Orientation (EO)	.487**	1			
Market Orientation (MO)	.385**	.881**	1		
Global Mindset (GM)	.338**	.853**	.872**	1	

Note: \*\* Correlation is significant at the 0.01 level (2-tailed),  
 \* Correlation is significant at the 0.05 level (2-tailed).



The result found a moderate correlation between entrepreneurship orientation and internationalization ( $r = 0.487$ ,  $p < 0.01$ ). It implies a moderate level of entrepreneurship orientation with a moderate degree of internationalization. Alternatively, the weak correlation was observed between market orientation and internationalization ( $r = 0.385$ ,  $p < 0.01$ ) indicating the weak market orientation level and weak degree of internationalization.

There is a weak positive correlation identified between the global mindset and internationalization ( $r = 0.338$ ,  $p < 0.01$ ) with a weak level of global mindset correlated with a weak degree of internationalization.

### ***Regression Analysis***

To further investigate the relationships among the variables, multiple regression equations were conducted. Table 5 provides the results of the analyses among variables. R squared provides evidence on the variance in the dependent variables named internationalization being explained by the model. Using multiple regression procedures, the model consists of entrepreneurial orientation, market orientation, and global mindset was found to be significant where the  $R^2 = 0.259$  explaining 25.9% of the variance in internationalization. Entrepreneurial orientation was found to be significant and have a greater influence on internationalization ( $\beta = .757$ ,  $p < .01$ ). In contrast, market orientation ( $\beta = -.055$ ,  $p > .05$ ) and global mindset ( $\beta = -.260$ ,  $p > .05$ ) were not found to significantly predict internationalization.

*Table 5: Multiple Regression Result*

Predictors	Dependent Variable: Internationalization
Entrepreneurial Orientation	.757**
Market Orientation	-.055
Global Mindset	-.260
R <sup>2</sup>	.259
F	13.543

Note: N=120, \* $p < .05$ ; \*\* $p < .01$ .

### ***Testing for Moderation***

Hierarchical regression analysis was carried out to test the hypothesis that firm size moderates the relation between entrepreneurial orientation, market orientation, and global mindset toward internationalization. Testing for moderation required considering the results of three separate equations which then have been separated into three models as shown in Table 6 below.

Table 6: Hierarchical Multiple Regression Analysis

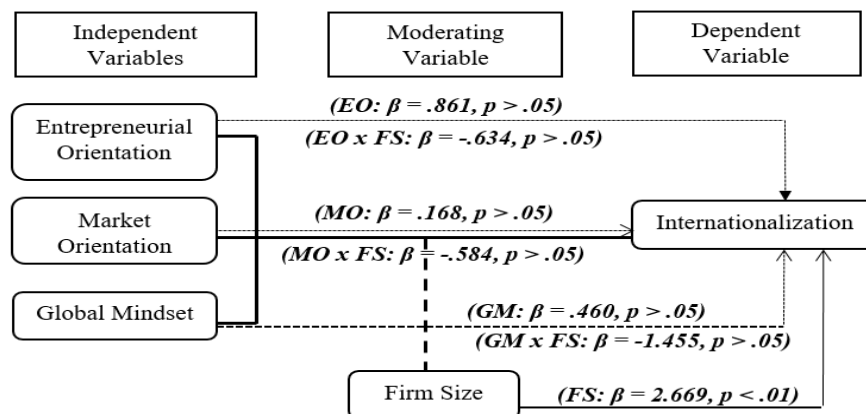
Model	Variable	Beta	t-value	Sig.	R <sup>2</sup>	Adj. R <sup>2</sup>	ΔR <sup>2</sup>	ΔF	*ΔF Sig.
1	EO	.757	4.168	.000	.259	.240	.259	13.543	.000
	MO	-.055	-.284	.777					
	GM	-.260	-1.481	.141					
2	EO	.656	3.672	.000	.314	.290	.055	9.169	.003
	MO	-.151	-.797	.427					
	GM	-.197	-1.155	.250					
	FS	-.272	-3.028	.003					
3	EO	.861	1.332	.186	.443	.409	.129	8.673	.000
	MO	.168	.249	.804					
	GM	.460	1.049	.297					
	FS	2.669	4.535	.000					
	EO x FS	-.634	-.392	.696					
	MO x FS	-.584	-.354	.724					
	GM x FS	-1.455	-1.357	.177					

Note: EO = Entrepreneurial Orientation, MO = Market Orientation, GM = Global Mindset, FS = Firm Size; \*p < .05

The coefficient of determination, R<sup>2</sup> for the first model was .259 indicates the predictors contributed 25.9% to the change in the internationalization. However, the nature of this relationship between entrepreneurial orientation, market orientation, global mindset, and internationalization changed significantly with the introduction of firm size as a predictor. Upon the introduction of firm size as a predictor, the R<sup>2</sup> increased by .055 from .259 (25.9%) to .314 (31.4%). This value implies that with the addition of firm size, the predictors can explain up to 31.4% of the internationalization decision by SMEs. Likewise, the model further improves its R<sup>2</sup> to .443 with an increase of .129 with an addition of the interaction term between entrepreneurial orientation, market orientation, and a global mindset with firm size. The F-change for all predictors was significant (ΔF = 13.543, p < .01), inferring that entrepreneurial orientation, market orientation, and global mindset significantly influenced internationalization. By adding firm size as a predictor in the second model, the F-change value reducing but still significant (ΔF = 9.169, p < .01). With the introduction of interaction term named EO x FS, MO x FS, and GM x FS in Model 3, the model still significant although the value of F-change reduces (ΔF = 8.673, p < .01). The beta for entrepreneurial orientation in the first model was .757 (β = .757, t = 4.168, p < .01), whereas the remaining two predictors revealed negative and insignificant effects: market orientation (β = -.055, t = -.284, p > .05) and global mindset (β = -.260, t = -1.481, p > .05). This means entrepreneurial orientation alone contributed to the internationalization.

An addition of firm size as predictor in Model 2 reduced the beta for entrepreneurial orientation to .656 (β = .656, t = 3.672, p < .01), hence statistically significant. Alternatively, market orientation and global mindset remained negative and insignificant to the internationalization in the second model. Firm size beta was -.272 (β = -.272, t = -3.028, p < .01) which implies that firm size was negative but significant as predictor in the model. In the third model, the interaction term enhanced the value of beta for all predictors: entrepreneurial orientation (β = .861, t = 1.332, p > .05), market orientation (β = .168, t = .249,

$p > .05$ ), and global mindset ( $\beta = .460$ ,  $t = 1.049$ ,  $p > .05$ ). Even though the value is positive, all predictors were insignificant to the internationalization. Firm size was also enriched and revealed positive and significant result ( $\beta = 2.669$ ,  $t = 4.535$ ,  $p < .01$ ). In contrast, all interaction term exhibited negative and insignificant effects: EO x FS ( $\beta = -.634$ ,  $t = -.392$ ,  $p > .05$ ), MO x FS ( $\beta = -.584$ ,  $t = -.354$ ,  $p > .05$ ), and GM x FS ( $\beta = -1.455$ ,  $t = -1.357$ ,  $p > .05$ ). From the findings, it is validated that firm size does not moderate the relationship between entrepreneurial orientation, market orientation, global mindset, and internationalization. Figure 2 demonstrated the findings from Model 3 comprising the value of predictors, interaction term, and moderating variable towards internationalization.



**Figure 2: Moderating effects of firm size between predictors and internationalization. Values shown in parentheses are after the inclusion of the moderating variable.**

### Discussion of Results

Previous studies found that entrepreneurial orientation, market orientation, and global mindset were positively related to internationalization (Gupta & Govindarajan, 2002; Hanif & Irshad, 2018; Troilo, 2012). The research on the relationship between entrepreneurial orientation, market orientation, global mindset, and internationalization was observed in global entrepreneurship research employing various theoretical perceptions and generated varied fallouts (Che Senik et al., 2014; Chelliah, 2010; Kuivalainen et al., 2012). Javalgi & Todd (2011) demonstrated that there is a strong relationship between entrepreneurial orientation and internationalization.

The importance of the significant relationship between entrepreneurial orientation and international expansion recommends that upper management must nurture entrepreneurial culture in the organization. Greater success in the international market seems to have a significant impact on firms with high entrepreneurial orientation managers, which then promotes the improvement of the company's performance both domestically and internationally (Mostafa et al., 2005). In contrast, market orientation has no influence and not statistically significant in internationalization. Prior research also demonstrated the same findings where a market orientation has no direct influence on firm performance and internationalization (Aminu, 2018; Joensuu-salo & Sorama, 2004; Yilmaz & Akman, 2008). It denotes that within internationalized SMEs, market orientation only has an indirect effect on success, which mediated by marketing capability. Global mindset also found to have no positive significant effects on the degree of internationalization. this finding implies that SMEs may be infuriated by institutional hurdles that have led to resource shortage disadvantageous for them to execute international operations (Cao & Lin, 2017). Although the SMEs' managers

or owners have various plans and innovative thinking, the constraints arising from international barriers might outshine their passion for undertaking international activities as well as develop further in international markets. This study discloses that entrepreneurial orientation, market orientation, and global mindset were positively correlated to internationalization. However, only entrepreneurial orientation was found to be statistically significant to influence the SMEs' internationalization in Malaysia, whereas market orientation and global mindset did not influence the internationalization decision of SMEs. Among the three predictors, entrepreneurial orientation was found the only element that determines the internationalization of SMEs in Malaysia.

### ***Firm Size as the Predictor of Internationalization***

Since, the enterprises can be classified in different categories according to their size, and the most common criteria to categorize is by the number of people employed (OECD, 2020). Therefore, this study employed the number of employees as the predictor for firm size which also utilized by the previous researcher. Firm size has been mentioned to have a strong relationship with internationalization. Abbasi & Malik (2015) and Chelliah et al. (2010) observed that firm size also has an impact on internationalization as larger companies are more likely to have more room for international operations. Conversely, the results of this study reveal that firm size does not moderate the relationship between entrepreneurship orientation, market orientation, global mindset, and internationalization. It was also found that firm size has a direct predictor of internationalization. The last research question clarifies the direct links between firm size and internationalization. To conclude, the findings have revealed that firm size could perform as the determinants of SMEs in Malaysia and then lead to a better international operation.

### **Conclusion**

The study explores the relationship between entrepreneurial orientation, market orientation, and global mindset. The findings disclose that entrepreneurial orientation, market orientation, and global mindset were positively correlated to internationalization. The discoveries have numerous implications for both SMEs and policymakers. SMEs should actively involve in internationalization as it can help them to attain better firm performance. Instead of depending on the domestic market, the firm should be more competitive and innovatively urge themselves to perform globally as its benefits financially or non-financially. Managers and leaders of Malaysian SMEs should better emphasize in recognizing various mechanism in internationalization of the firms. As the pandemic hit all firms globally, information system and technology is seem to be the main generator for the business owner to secure their objective. As the result found in this study and most of the previous study, those firms with better market orientation approach can focus on producing and selling goods and services that fulfill customer needs, then improving the firm's performance as well. To remain competitive internationally, firms must pursue the market orientation approach prudently because consumers especially have a practically limitless range of choice. Internationalization benefits SMEs in many ways, thus the managers and leaders of SMEs in Malaysia should develop their global mindset as it tends toward international orientation which improves international competitiveness. International thinking also helps SMEs to pursue business opportunities on an international basis. Suggestions would be that companies should devote enough capital to their leading and strategic markets. Furthermore, they should carry on developing new connections or exploit the present relationship to

achieve market entry which leads to more success and competitiveness in the international platform.

Policymakers should encourage SMEs by boosting internationalization as allows firms to enjoy growth in international markets as well as increases firms' revenue. The government should play its role and assist SMEs in determining their competencies and examine the international market to identify opportunities that benefitted the Malaysian SMEs. With government support to SMEs, the policymakers should review certain policies and regulations to suit SMEs' to boost their competitiveness domestically and internationally. The limitations are the features of the methodology that have affected the interpretation of the research findings. It involves limitations on the generalizability, application to action, and use of results that are the result of how the researcher originally wanted to design the analysis or the approach used to assess the internal and external validity of the outcome of unanticipated challenges that occurred during the analysis. All researches have their shortcomings either by using primary or secondary data. The possible limitation in this study is the access to data. As this study depends on the survey, the researcher confronted difficulty in having access to individuals, businesses, data, or records, as some of the access is limited in some way. Some organization might not give their full cooperation and commitment to fulfilling the survey which then leads to missing and unreliable data. Also, the longitudinal effects become one of the limitations. The time available to analyze the research issue and calculate the improvement in time is very constrained by the due date of the research. As the time taken for getting the full response from the respondents is longer, the researcher had to proceed with the discussion of findings from the available data which might give different results from the prior expectations.

The report indicates two guidance for future studies. Initially, a combination of qualitative and quantitative approaches is suggested. This mixture might deliver a better understanding of internationalization spectacles. The qualitative study gives more chance to the SMEs to enlighten their business directions and the internationalization path they take. At the same time, the quantitative study will make it conceivable to test these proposals. Both methods will lead to better generalizability of the findings to be reported in the study. Furthermore, future research can replicate this study by using a bigger sample which might improve the findings of results. It is also recommended that future studies could include other predictors such as government support and culture as a moderating variable. These variables have proven to influence internationalization and cause researchers to have a discrepancy in their findings of the study.

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