

# International Business Competences for Internationalized Malaysia Small and Medium Enterprises (iMSMEs)

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**Abstract—** Small and Medium Enterprises (SMEs) have played a major role in helping with the economic growth for many countries. In the globalized world nowadays, SMEs need to move forward to compete with other firms. Firms that possess the right competences are found to perform better at international markets. Studies on competences of the Malaysian SMEs that have done business abroad are very limited, therefore this research identifies international business competences (IBC) practiced by internationalized Malaysian SMEs (iMSMEs). Through Exploratory Factor Analysis (EFA) and Factor Confirmatory Factor Analysis (CFA) using LISREL, competences were run against international business performance to reveal the best framework for iMSMEs to follow. The findings reveal five IBC for iMSMEs that may be applied to help increase the performance of iMSMEs

**Index Terms—**international business competences, Malaysia, performance, SMEs, performance

## I. INTRODUCTION

Small and Medium Enterprises (SMEs) is a major player in the growth of economy in many countries and offer jobs to many people. SMEinfo [1] stated that Malaysia in 2016, 98.5% of businesses are SMEs amounting to 907,065, and SMEs contributed 36.6% of Malaysia GDP in 2016. In 2018, the Malaysia's SMEs GDP achieved 6.2% growth in comparison with the Malaysia's GDP which was only 4.7%, a rise of 38.3% compared to the previous year. SMEs exports accounts 17.28% (RM171.9 billion) of the total Malaysia's exports in 2018. Globalization has pushed many businesses to move beyond their boundaries and by going international, SMEs gain benefits like support by the government to sustain their business, and market barriers [2]. Many researchers suggested that SMEs may sustain its business if SMEs possess business competence [3]-[8]. For SMEs embarking the international arena, many challenges and

complexity will be faced by SMEs. It was recommended by Knight & Kim [3] and Ibrahim, Abdullah & Ismail [8] that SMEs should look at the international business competence (IBC). Many studies conducted on IBC of SMEs especially in Asian countries are still limited [3], [6]-[8]. Malaysian SMEs that went abroad often failed at handling their international operations due to business competence paucity [9]-[10]. Therefore, this research explores the possible international business competences possessed by iMSMEs that may be able to be applied or considered by other SMEs to face the international market and gain better performance.

## II. LITERATURE

It is indisputable that SMEs help bring the economy of a nation and increase employment [8], [11]-[13]. Malaysian SMEs are denoted as 'economic agents' due to its GDP contribution in 2014 [1]. However, according to Malaysia Deputy Finance Minister [14], the 38.3% rise in SME GDP in 2018 is not enough and Malaysian SMEs should gain as high as 80%. SMEs contributions in 2018 covered 52.8% in agriculture, 46.4% in construction, 42.2% in services, 34.4% in manufacturing, and 2.45% in mining and quarrying [15].

SMEs are recommended to increase their competitiveness at domestic level and penetrate international market [14]. Malaysian SMEs (manufacturing sector) were found lacking in managerial capabilities when linked with international activities [8]. The survival rate of Malaysia SMEs in dealing with international business activities was low [14].

One of the iMSMEs failures shared by MATRADE Sarawak [10] was management incompetency like lack of knowledge in handling international market, environmental survey, meeting the requirement, networking, job delegation, and trust. It is important for SMEs to have business competence (firm-specific ability) to survive and sustain in international market [3]-[8].

Competence is defined as, “*what organization does well than others*” [16]. The definition of business competence is, “*well-defined routines that are combined with firm-specific assets to enable distinctive functions to be carried out*” [17]-[18]. International business competence (IBC) is defined as, “*business competence with a more complexity nature due to differences in the international market needs*” [15].

Regardless of single competence or multidimensional competence, firms that have competence perform better [3], [6]-[7], [19] and positively affect the performance of international firm [20]-[21]. This can be viewed in research on firms with single competence like network competence [22], cross-cultural competence [23], interfirm partnership competence [24], alliance competence [25] and, intercultural communication competence [26] and firms with multidimensional competence like international orientation [27]-[28], international marketing skills [24], [27], [29], international innovativeness [27] and international market orientation [20]-[21]. The four competencies were found significant in a study on iMSMEs [6].

The foundation theory for this research is the Resource-based View (RBV). RBV recognizes intangible resources, precisely the knowledge and competences as resources that are valuable, unique, and hard to imitate. RBV substantially contribute to the international business competence [30].

### III. METHODOLOGY

This research covers the SMEs in Malaysia that are registered with the Malaysia SME Corp as exporters which include manufacturing and services sectors. Using both qualitative and quantitative approach, the research includes literature search for competence items; interviews with expert panels for items and validation; and distribution of 700 questionnaires to the SMEs in Malaysia. To identify the themes and emerging themes, the thematic approached based on coding was used [31]. Reliability and Exploratory Factor Analysis (EFA) were done to verify the underlying five constructs of competences. Confirmatory Factor Analysis (CFA) procedure was conducted using LISREL to check on the model fit indices [32].

### IV. FINDINGS AND DISCUSSION

Table I shows of 350 questionnaires were distributed to manufacturing sector and services sectors. The collected responses that can be used was 402 responses, yielding a return rate of 69%. The gap between both sectors is minimal which may reflect the true condition of each sector.

TABLE I. THE DISTRIBUTION OF THE SAMPLE

Sector	Distributed	%	Collected	%
Manufacturing	350	50	206	51.2%
Services	350	50	196	48.8%
Total	700	100	402	100%

EFA procedure was conducted using the 61 items. Items went under the Principal Component Analysis (PCA) and rotated using the Varimax Rotation with Kaiser Normalization using 0.3 factor loading. The Eigenvalue for the five components were above 1.0, therefore, retained to represent the cumulative variance of 52.89%. 10 variables were dropped which had low correlation coefficient below 0.3 [34]. Selected factors were rotated using the VARIMAX method to check the significant level. Only factor loading above 0.40 is regarded as significant with the respondent of more than 350 [34]. Several items were removed to ensure the Confirmatory Factor Analysis (CFA) stage runs smoothly. Table II shows the potential factors models derived from the EFA process.

TABLE II. POTENTIAL FACTORS MODELS DERIVED FROM EFA

Model	Number of Factors	Number of Items	Cumulative Variance (%)
Model 1	5	28	48.56
Model 2	5	29	51.54
Model 3	5	30	52.89

The 3 models were then run using the Structural Equation Modelling (SEM) within LISREL framework to evaluate the ‘goodness of fit’. Table III shows the model fit indices for Model 3 which met the closes fit and criterion by [34]. Model 3 had better values starting from the  $\chi^2$ ratio to the degree of freedom is the lowest (1.393) compared to Model 1 and Model 2. The GFI and AGFI of model 3 were also in the acceptable fit and good fit with value index of 0.915 and 0.905. The CFI, NFI and NNFI index values for model 3 were within the good fit requirement. Comparing to other models, model 3 had the highest number of items and cumulative variance.

TABLE III. MODEL FIT INDICES

Type of Fit Indices	Fit Indices
Chi Square	1471.83
$\chi^2$ (df)	758
p-value	0.000
$\chi^2/df$	1.393
Root Mean Square Error of Approximation (RMSEA)	0.048
Standardized Root Mean Square Residual (SRMR)	0.038
Good Fit Index (GFI)	0.915
Adjusted Good of Fit Index (AGFI)	0.905
Comparative Fit Index (CFI)	0.978
Non-Normed Fit Index (NNFI)	0.970
Normed Fit Index (NFI)	0.962
Parsimony Normed Fit Index (PNFI)	0.825
Parsimony Good Fit Index (PGFI)	0.748

Reliability testing was conducted covering Cronbach Alpha, and Bentler Bonnet Coefficient. This can be viewed in Table IV which cover the reliability of five factors identified. Five factors met the prerequisite of 0.70 and above shows the stability and consistency of the instrument. Based on the factor loading results, each factor was carefully named to represent the items in each factor. These were validated by panels of experts selected from universities, agencies, and industries.

TABLE IV. RELIABILITY OF FIVE FACTORS

Factors	Cronbach Alpha ( $\alpha$ )	Bentler Bonnet Coefficient ( $r$ )
International Driven Orientation (IDO)	0.855	0.960
International Marketing Tactics (IMT)	0.863	0.969
International Specialized Skills (ISS)	0.825	0.953
International Market Segmentation Orientation (IMSO)	0.844	0.964
International Knowledge Orientation (IKO)	0.818	0.950

Table V shows the relative importance of IBC factors against performance. Leading at number 1 is International Drive Orientation (IDO). International Knowledge Orientation (IKO) is the next competence in line which ranked number 2 with performance followed by International Market Segmentation (IMSO) at number 3, International Marketing Tactics (IMT) at number 4 and, International Specialized Skills (ISS) at number 5.

IDO represents the ability of managers to take action based on company's vision and mission as one of the important tools to succeeding in international market. This includes having international experience and willingness to actively explore international business opportunities with consideration of both high risk and gradual entry. Some of the items mentioned are supported by several researchers [7], [35]-[36].

TABLE V. RELATIVE IMPORTANCE OF IBC FACTORS

Factors	Standardized Coefficients ( $\beta$ )	Sig.	Rank
International Drive Orientation (IDO)	0.223	0.000	1
International Knowledge Orientation (IKO)	0.189	0.000	2
International Market Segmentation Orientation (IMSO)	0.171	0.000	3
International Marketing Tactics (IMT)	0.167	0.000	4
International Specialized Skills (ISS)	0.165	0.000	5

\*\*Correlation is significant at 0.01 level

To be successful in international market, one needs to be equipped with the right knowledge (IKO). This includes the ability to actively seek for new things that are in line with international demand. The second most important is the ability to ensure that products/services gain the right certification in order to achieve higher customer acceptance. Customers nowadays are more aware and demand better products/service with reassurance and having the appropriate certification is highly important. The organization needs to know its employee satisfaction as this will help organization grow better and higher commitment can be achieved. It has been proven that satisfied employees tend to perform better. The ability of the top management to have the

knowledge on what makes its employees satisfy when working for them is crucial. Knowing when to take action on customer satisfaction and amending any negativity by customers help enhance the performance of an organization. Another main items in the international Knowledge Orientation (IKO) is to be confident with products/services. This can be achieved by having the knowledge and understanding on the products/services. [7], [37].

IMSO is the ability to segment and target markets that are suitable for the products/services. This is important in ensuring the success of organization. This will lead to creating the right strategies for customers and fight against competitors. This includes having the capabilities in getting employees to create values among customers and incorporating all functions together effectively. [7], [37].

IMT is the ability of managers to have master the marketing skills is important. Knowing the right tactics as such ability to control and evaluate marketing activities are important. Apart from that, a manager needs to have the talent in building the company's image as this will attract end users to the brand value proposition. At the same time, possessing the information on customers, competitors and distributors too are important. When all these are mastered then it will be much easier for a manager to effectively place the right pricing of the products/services. [7], [38].

ISS means the ability of managers to owning the specialized skills meant for the success of company. This will create many more innovation and company will be able to compete with its competitors [3], [7].

## V. CONCLUSION

It is not easy to penetrate and sustain at international markets and iMSMEs performance results may become better with multidimensional competences (see [3], [5], [6]-[8]). This research proposes a new IBC framework for iMSMEs to adopt and adapt which are IDO, IKO, IMSO, IMT and ISS before entering international market and survive abroad. These competences conformed to the underpinning theory of RBV which look at firms-specific ability that is unique, valuable and hard to imitate [39]-[40] that are used to help SMEs survive the international markets.

## VI. LIMITATION AND FUTURE RESEARCH

IBC information is limited especially information related to the Malaysia SMEs in particular, the iMSME. To gain better knowledge, perspective, and experience of local experts, interviewing more expert panels is encouraged because they may provide valuable tacit knowledge. The number of respondents can be increased to create more precise and reliable results. Different settings can also be established for this kind of research with additional variables.

## CONFLICT OF INTEREST

The authors declare no conflict of interest.

## AUTHOR CONTRIBUTIONS

This paper was done by the first author as part of PhD research work. The second and third authors are the first and second supervisors. They have looked at the paper and approved the final version.

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