

## Networking and internationalization of SMEs in emerging economies

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**Abstract** Networking has been established as an important source of small- to medium-sized enterprises (SMEs) business expansion in many developed economies. Often, it provides the necessary intelligence leading to internationalization. The question this study addresses is “What are the roles and sources of networking of SMEs internationalization in *emerging* economies?” This study responds to this query through a dyadic study involving expert-opinion survey of SME development professionals and case studies of SMEs internationalization. The convergent views identified three interconnected sources of networking for SMEs internationalization, which are government institutions, business associates, and personal relations. The results affirmed that accomplishment of internationalization requires cohesion among the myriads of networking sources and operating agencies. A systems approach towards supporting the creation and management of networking linkages for internationalization combines systems thinking perspective with institutional view. It emphasizes integration of coordination, facilitation, and monitoring functions. Thus, suggesting institutional support and systems thinking are important constructs in the theory of international entrepreneurship. Policy makers and entrepreneurs of SMEs

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gain actionable points to ensure effectiveness of institutional support mechanism and to enhance their business internationalization, respectively.

**Keywords** Internationalization · Networking · Small- to medium-sized enterprises (SMEs) · Emerging economies · Institutional support · Malaysia

## Introduction

Extant literature has discussed the importance of network in supporting and enhancing internationalization process of small to medium enterprises (SMEs; i.e., Coviello and Munro 1997; Fuller-Love and Thomas 2004; Wincent 2005). For instance, networking can assist SMEs to compete at the international level as they may provide “symbiotic” relationships with larger firms (Etemad et al. 2001) through various approaches. Networking can be a significant means for gaining knowledge or learning about international opportunities, and thus can motivate SMEs to enter international markets (Andersen and Buvik 2002; Ellis 2000; Sharma and Johanson 1987). Different approaches to networking are practiced among different industries, governments, agencies, and other firms which have assisted the internationalization process (Rickne 2006; Westerlund et al. 2008) indicating the network perspective is convenient for explaining “why” and “how” firms internationalize (Johanson and Mattsson 1988).

Despite the increasing important role of SMEs in emerging economies, research attention for SMEs and internationalization in relation to emerging markets is still limited (Coviello and Munro 1995; Das 1994; Kwon and Hu 2001; Sim and Pandian 2003). Emerging economies are characterized by countries experiencing rapid economic growth with rising income and buying power. Their SMEs play a vital role in driving the global economy, and enhancing their nation’s employment, economic, and social development (Bruton et al. 2008; SME & Entrepreneurship Magazine 2011).

While in recent years, research interest on the internationalization of SMEs was beginning to focus on the emerging economies (see for example: Sim and Pandian 2003; Ulgado et al. 1994; Ting 1985; Yeung 1994), there are still few empirical evidence on this issue (Bruton et al. 2008). This includes attention for the institutional sources of networking and their roles in facilitating internationalization of SMEs.

Given emerging economies’ increasing dependency on international trade and the importance attached to their SMEs, the purpose of this research is to investigate the efficacy of the networking system in one rapidly emerging economy, which is Malaysia. Specifically, this paper intends to identify the sources and roles/functions of networking that assist SMEs to internationalize. The findings of the study enable the development of a systemic model that can improve the networking linkages of SMEs in emerging economies.

To achieve these, a dyadic study involving opinions of experts on SME development and case studies of SMEs owners/entrepreneurs was undertaken. The paper begins by explaining the role of networking theory in the internationalization process and providing a brief description of SMEs internationalization in Malaysia. Then it presents the results of the study, before moving on to explain and discuss the

findings, which leads to the development of the networking linkages model. The implications of these for theory and practice are included.

## Theoretical background

### Networking and internationalization

The network model of internationalization was developed in the 1980s when it became evident that most firms used various networks to facilitate their internationalization activities (Johanson and Mattsson 1988). Anderson et al. (1994) suggest that a network is a dyadic business relationship formed between two actors. Johnsen and Johnsen (1999) relate a network to a collection of “actors” that can include people, departments, or businesses and their strategic links to others such as family, community as well as financial or business alliances.

Networks expose SMEs to international markets through an accumulation of institutional, business, and internationalization knowledge, which provide the necessary intelligence in support of the process (Eriksson et al. 2000; Mejri and Katsuhiko 2010). Networks can help businesses gain knowledge about foreign institutions so that they are aware of current rules and regulations. They also provide links to the conduct of business and market intelligence that help them decide when and how to internationalize (Johanson and Mattsson 1988). Networking offers SMEs a reduced risk when entering into other markets (Coviello and McAuley 1999). Networking can help overcome size inconveniences as it allows organizations to build relationships with established firms and so lessen the risk (Madhok 1997). Connections with others allow SMEs to gain knowledge on foreign markets, access to required resources and capabilities, and assist them to reduce entry barriers (Chen 2003; Coviello and Munro 1995; Johanson and Mattsson 1988).

This knowledge about foreign marketplaces not only creates opportunities for the firm to internationalize but also allows firms to formulate strategic plans to accelerate their internationalization process, engage with born-global pattern, and ensure survival in the long run (Dib et al. 2010; Korhonen et al. 1996; Liesch and Knight 1999; Moen and Servais 2002; Sharma 1993; Wincent 2005). Moreover, having the knowledge and appraising them against their organizational capabilities allows SMEs to assess their abilities to venture out (Blomstermo and Sharma 2003). Networking can also influence strategic decisions through the exchange of resources among different members or by bringing in new ideas from within or outside the SME networks (Fuller-Love and Thomas 2004; Sharma 1993; Wincent 2005). Utilizing networks also helps to build international contacts and find suitable agents and this affects market and product development selections and foreign entry mode choice (Coviello and Munro 1995; Johanson and Mattsson 1988). Accessing networks allows products to be integrated through affiliation with global brands, enabling firms to gain familiarity with the global business environment, including about their competitors and awareness of international standards, requirements, and quality (de Wit and Meyer 1998; Yakhlef and Maubourguet 2004).

Indeed, the empirical evidence suggests that understanding networking offers the most relevant perspective for explaining SMEs internationalization (Rutashoby and Jaensson 2004). This is because it conveniently explains “why” and “how” firms internationalize, and perhaps also “when” the internationalization process occurs (Johanson and Mattsson 1988). This needs a sequential discussion of what the sources and roles of networking are, how these two aspects relate to institutional supports (Chetty and Blankenburg 2000; Ellis and Pecotich 2001; Welch and Welch 1998), and how networks influence SMEs in emerging economies internationalize (Ghauri et al. 2003; Zafarullah et al. 1998; Zhou and Xin 2003). This is what this study intends to achieve.

### Application of network approach in emerging economies

Despite extant literature on networking and SME internationalization, evidence from emerging economies is still lacking (Ghauri et al. 2003). Zeng and Williamson (2003) argue that many developing countries, especially in Asia, seek sustainable networks to help them become globally competitive firms. Some evidence is available that Asian firms are keen to network and they actively seek “external relationships” as a source of new information and expertise to enhance their international competitiveness (Redding 1995; Tambunan 2008; Zhou and Xin 2003). This includes networking within ethnic groups (Dana 2001).

The Chinese ethnic from many Asian countries such as Taiwan, Hong Kong, Singapore, Malaysia, and the Republic of China tend to cultivate personal relationships in businesses, known as *quanxi*. *Quanxi* is built through family ties, personal connection of the owners, including connection with selected government-owned companies, trust, and cooperative strategies (Sim and Pandian 2003). *Quanxi* is believed to be the key to successful entrepreneurship and SME development for Chinese businesses as it allows firms and their owners to utilize social capital for business creation and survival (Li and Matlay 2006). Despite this, ethnic networks can limit the firms’ growth and the assimilation of other social cultures (Yeung 2004), and thus may hinder international expansion.

Specifically in the case of Malaysian SMEs, networks with the government institutions and agencies influence the decision to go international as they create awareness for international opportunities (Mahajar and Carraher 2006; Zizah et al. 2010). These institutional network relationships not only trigger and motivate internationalization, they influence the choice of markets, entry modes and the pace and patterns of expansion, help gain initial credibility, allow access to additional relationships and established channels, as well as lower the costs and risks (Zain and Ng 2006). In another study, Mahajar and Jasmani (2006) point out that the export assistance programs participated by the SMEs are beneficial but do not fully facilitate their internationalization efforts. The following section briefly discusses the internationalization of SMEs in Malaysia.

### SME internationalization in Malaysia

Like other emerging economies around the globe, Malaysia has targeted the expansion and internationalization of SMEs as one of a number of strategies to help

the country develop its economy. Malaysia defines SMEs as “*firms with annual sales turnover not exceeding RM25 million, or full time employees not exceeding 150.*” (SMIDEC 2002: 31). The sector represents 99.2% of total business establishment, provides employment to 56% of the total workforce, and contributes to 32% of gross domestic product (NSDC 2007). By the year 2008, the export capacity of SMEs is about 20% of total output, amounting to about 10% of Malaysia total exports of manufactured products (NSDC 2009).

In an attempt to increase exports and grow the country’s economy, the Malaysian government has focused on encouraging SMEs entry into global markets through interfirm linkages and networks with large domestic government-owned companies and foreign entities (Ninth Malaysian Plan 2006). In the subsequent 10th Malaysia Plan, covering the periods of 2011–2016, the government further emphasizes the need for global cooperation of foreign SMEs with locals (The Star 2010). In accomplishing these purposes, the Malaysian government has established a number of bodies that each have a role in supporting Malaysian SMEs linkages with large, local- or foreign-owned corporations (Hashim and Wafa 2002; Mahajar and Carraher 2006).

There are 12 ministries and 38 agencies that have been set up to assist with SME development. The main government institutions include the National SME Development Council (NSDC), Ministry of International Trade and Industry (MITI), Ministry of Entrepreneurships and Cooperation Development (MECD), Small and Medium Industries Development Corporation (SMIDEC), SME Corp, Malaysian Industrial Development Association (MIDA), and Malaysia External Trade Development Corporation (MATRADE). So in all, there is a considerable support to assist companies into international markets, indicative of institutional perspective taken by the Malaysian government in supporting internationalization of businesses. Part of their role is to encourage internationalization by subcontracting, exporting, and collaborating through joint ventures, licensing or franchising (Mori 2005). Apart from the internal agencies, the government has also actively participated in and contributed to regional initiatives on SME development under the Association of Southeast Asian nations and Asia-Pacific Economic Cooperation. Their aim is to create opportunities and networks that will assist Malaysian SMEs to venture abroad, as well as attract foreign companies to link up with business counterparts in Malaysia. Central to this approach is that building “inter-firm linkages” and networks will help businesses succeed in international ventures.

This paper overcomes the limitation of existing studies by examining the roles and sources of networking on all types of internationalization efforts. Specifically, this study elaborates further the role of institutional support for internationalization.

## Research methodology

In achieving the objectives of the study, a dyadic procedure involving expert opinions of SME development professionals and case studies of SMEs was utilized. In the first stage, the expert opinion methodology, which has been widely utilized in evaluation research in both social and pure science fields, was administered. One of the main advantages of the methodology is its ability to address a full range of

research questions of who, when, what, how, and why? Moreover, having experts, who have extensive knowledge on the subject as the respondents significantly increase the validity and reliability of the findings (Gummesson 1991; Linstone and Turoff 1978). Taking advantage of these strengths, this study collected data through semistructured interviews with a panel of expert respondents comprising five categories: academics, policy makers, government agencies, the Chamber of Commerce, and business Research Institutes. They represent a range of professionals in institutions or departments directly involved with SME development in Malaysia.

To ensure the authenticity of their stances, respondents were selected based on their positions, qualifications, affiliations, and length of working experience. The interviews with the experts were conducted in September to November 2005, and lasted from 30 to 45 min. The first approach was by email or telephone to invite participation in the study. Of the 55 experts approached, 32 participants were recruited. All interviews were manually recorded and analyzed. The main question posed to the respondents is: “*How do the SMEs recognize international opportunities?*” A semi-structured interview protocol was utilized, containing these questions: (a) *What are the sources of networking for SMEs?* (b) *How do those sources assist SMEs to internationalize?* and (c) *What aspects of networking assisted them to internationalize?* Table 1 shows the experts’ profiles and the number of respondents per category.

Respondents’ interview data were analyzed manually by firstly categorizing them based on the questions posed during the interviews. Secondly, the respondents’ answers were categorized based on specific groupings on sources and functions (see Table 3). Finally, the outcome of the analysis is interpreted into a diagram that describes the existing networking linkages of SMEs (see Fig. 1).

In the second stage of the study, which utilized the case study methodology (Yin 1994, 2009; Eisenhardt 1989; Eisenhardt and Graebner 2007), interviews were conducted with two SME owners/entrepreneurs; one was from foods and beverages sector and the other was from agrobased sector. The purpose was to gain data on the sources and roles of networking based on their personal experiences. The selection of cases from two different sectors enabled cross-comparison to be made.

This dyadic methodology enables triangulation of findings from the panel of experts and the SME owners/entrepreneurs. These convergent views contribute to high validity and reliability of the findings. The corroborations of the findings with broader theories authenticate the study’s theoretical conceptualization, enabling the achievement of theoretical generalizability (Eisenhardt 1989; Eisenhardt and Graebner 2007).

## Findings

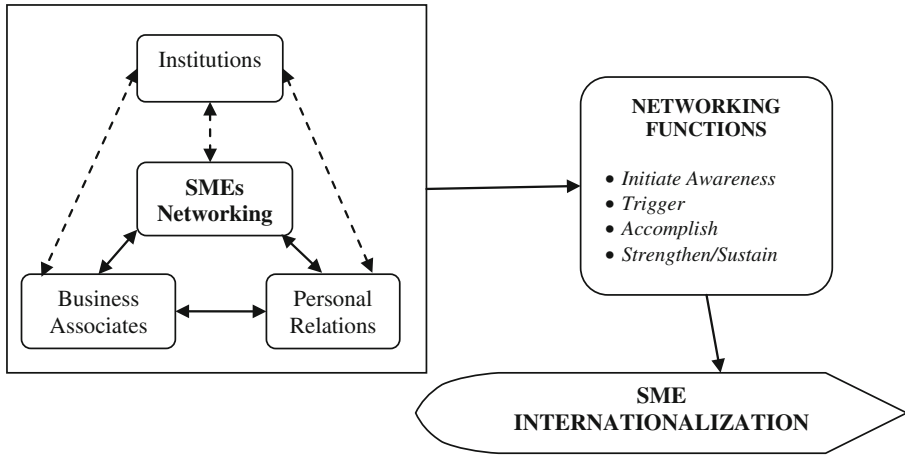
This section first presents the findings of the expert views, followed by the internationalization cases of the two SMEs.

The results and analyses of the expert opinions are organized as follows: (a) overall experts’ perspective on networking, (b) sources of networking, and (c) roles of networking. Based on the findings, the current situation regarding networking

**Table 1** Experts' profile

Category	Number of respondents (%)	Positions	Qualification (expert's involvement)	Affiliations	Length of working experience
Academics (AC)	6 (19)	Professor, Associate Professor	SME development and entrepreneurship franchising, international business and strategic management	Public universities in Malaysia	More than 10–30 years
Policy makers (PM)	8 (25)	Director, Assistant Director	SME development and entrepreneurship and cross-border investment	MIDA, MITI, MARA, and MECD	More than 10–30 years
Government agencies (GA)	8 (25)	Director, Assistant Director, Executive	Foreign direct investment, marketing and entrepreneurship and development	SME Corp, MIDEF, MIEL and MATRADE	20 to more than 30 years
Chamber of Commerce (CC)	4 (12)	Executive	Specialized in strategic planning and global marketing	The Malay and Malaysia Chambers of Commerce	More than 20 years
Research Institute (RI)	6 (19)	Directors	Specialized in small medium industry and R&D divisions	SIRIM and IKMAS	20 to more than 30 years

Full names of the agencies/institutions are given in Appendix A



*Note: Dash line = weak link; Solid line = strong link*

**Fig. 1** SME networking linkages and functions in internationalization process in Malaysia

practices and their influence on the SME internationalization process in Malaysia is discussed. Finally, an emergent model of networking linkages model for SMEs internationalization is proposed.

### Overall experts’ perspective on networking

Based on the experts’ views, we identified three main sources of networking that assisted SMEs go into international markets. These were the institutions, personal relations, and business associates shown in Table 2.

The institutions represent all the supporting government agencies (mentioned in the Experts’ Profiles section). Personal relations of SMEs include with relatives, friends, colleagues, and previous employment contacts. In addition, business associates included other SME owners, managers of both large local companies, as well as foreign and Malaysian MNCs.

As illustrated in Table 2, all experts agreed on the importance of institutions or supporting government agencies for linking SMEs into global markets, personal relationships, and linking up with other players. Altogether, 26 items describing the functions of networking were derived from the survey and of these, 12 items related to the direct support given by the institutions. The functions of personal relations and connections with other players were categorized into seven items. In the following discussion, we refer to these three sources such as institutions,

**Table 2** Overall experts’ feedback on the networking aspect

Sources of networking (what)	No. of functions (how)
Institutions (government agencies)	12
Personal relation	7
Business associates	7
Total items	26



personal relations, and business associates. The next analysis reviews experts' stances on the two foci issues of this paper: the sources of networking and how these sources assist internationalization.

The experts commonly agreed that networking is essential to initiating international awareness. As said by one academic: "...Networking is very important as the SMEs will be well informed on the international opportunities through their relationships." [AC1]. The Research Institute expert suggested that: "...The SMEs need strong relationship with other Malaysian SMEs." [RI5]. Moreover, a policy maker urged that: "...it is utmost important that the founders or entrepreneurs of SMEs maintain relationships so that it is easier for them to go international" [PM2].

Comments from these respondents reflect the importance of creating networks as a source of information for international activities and building continuing relationships to ensure assistance and support for foreign market entrance. Therefore, networking is not only deemed important but requires strong and sustainable relationships.

#### "What" source of networking

In response to "what" sources of networking assists Malaysian SMEs venturing into overseas' markets, the academic experts provided significant and comprehensive feedback as demonstrated in the following verbatims:

...Among the ministries, such as MITI, MECD, and government supporting institutions, such as MATRADE, SMIDEC, and MIDA...MATRADE is an important agency and it has many branches all over the world [AC1].

...Malaysian embassies all over the world help to assist SMEs by giving information required. Foreign embassies based in Malaysia also help SMEs with information needed [AC3].

...The owners/managers need to create networking with individuals, other firms, the government and its support systems, the forwarding and exporting agents, as well as the customs [AC5].

These experts listed the ministries, government bodies, including the Malaysian and foreign embassies within and outside the country, as important means for networking and creating networks with others. While all policy makers agreed that the ministries usually initiate and assist the entrepreneur in creating networks, they also stressed the importance of the SME owners targeting the most effective or appropriate agencies in facilitating their efforts to internationalize, depending on their firms' size:

...The mode taken to go international depends on the size of SMEs. For small and medium scale manufacturers, they usually go through SMIDEC and MATRADE. For bigger size firms, they usually use MIDA and MATRADE [PM2].

On the other hand, the government agencies that work under the MECD and MITI associated networking with the International Procurement Center program, in which SMEs are qualified to several incentives if their businesses are expanded

(MITI 2011). Therefore, they strongly advised that SMEs utilize government agencies, such as MATRADE, MITI, and SMIDEC as their means of internationalization. As stated by an expert from MATRADE:

...We encourage SMEs to create their own networking through International Procurement Center. We also connect them to MATRADE because MATRADE operates 30 overseas' centers [GA5].

Meanwhile, an expert from SMIDEC connected network with vendors:

...The SMEs are assigned to become vendors to MNCs' parent companies. Through this networking, SMEs are able to penetrate into Japan, Korea, USA, Taiwan, and European countries, such as UK, Germany, France, and other markets [GA3].

According to SMIDEC, these government agencies are the key to the industrial linkages program that links local producers to MNCs. By utilizing these linkages, SMEs need less effort to deal with international policies and requirements, which in turn allows easier foreign entrance. The essence of this fostering role is captured in the following quote:

...Under SMIDEC, SMEs are linked with Industrial Linkages Program, which provide productions to MNCs, local or foreign. [GA8].

While supporting the above views, the Chamber of Commerce experts provided practical examples. One commented on the connections from previous working places, while another pointed to successes in the Chinese ethnic small business sector, stating that regardless of where they are, the Chinese ethnic usually have strong and long lasting business networks. These contrasting views are illustrated in the following two observations:

...Networking is made from previous working places, as well as government and supporting agencies. Chinese-ethnic owned SMEs usually create strong and long lasting networking with other Chinese business owners within and outside Malaysia [CC3].

From another perspective, the Research Institutes were more concerned about how effective SMEs were in making initial contacts, not only with the government agencies, but also with the key persons based in the foreign countries. As stated:

...Usually, SMEs go global through MIDA, MATRADE and SMIDEC, as their initial contacts. After that they must make their own networking abroad [RI4].

Therefore, the SMEs have many avenues for networking. The most important avenue as mentioned by the experts is the government agencies such as SMIDEC, MATRADE, MITI, MIDA, and MECDD. Other important channels are the MNCs, other SME owners and managers, as well as individuals such as friends, colleagues, relatives, and family members. The next question is how these avenues or sources assist the SMEs to go international. This issue is discussed next.

“How” these sources assist (*roles of networking*)

In regard to “how” the sources of networking assist SMEs internationalize, the majority of experts agreed that exhibitions, seminars, and conferences at local and international levels were appropriate channels to create networking. “*SMEs should create more networking through exhibitions within and outside Malaysia*” [AC4] and that the Government Agencies encouraged the SMEs to “*...participate in international exhibitions (in or out of Malaysia) organized by the government agencies, such as MITI, MATRADE, SMIDEC, Federal Agriculture Marketing Authority (FAMA) or events like APEX and OIC*” [GA7].

An important networking source is MITI, which assists SMEs into supply chains by linking them as suppliers to MNCs, as this policy maker from MITI illustrated:

...MITI creates networking for SMEs by bringing MNCs into Malaysia and then introduces them to become part of the MNCs’ suppliers. MITI also makes arrangement to connect SMEs to the MNCs through the Free Trade Agreement programs, in which foreign firms are required to buy Malaysian products. And thus, involving the local SMEs in the MNCs’ global supply chain [PM6].

Another strategy is to encourage SMEs to identify key persons in the host countries who are knowledgeable and reliable to deal with the business rules and policies. As one Research Institute expert suggested:

...The SMEs must be able to identify the key person either locals or foreigners who are knowledgeable and reliable to facilitate the transfer of production. They need to know the rules and procedures in the trading system, environment, society, and culture [RI3].

In addition, the Industrial Linkages Programs introduced by SMIDEC facilitates the transfer of knowledge and outsourcing of some products. These two activities are possible through the subcontracting and vendors programs. As stated by one government agency expert:

...The Industrial Linkages Programs allow the MNCs to transfer knowledge to local SMEs and to outsource some productions to them by being subcontractors and/or vendors [GA1].

In general, the expert panel raised substantial concerns regarding networking. They frequently mentioned that problems can arise when creating, developing, and maintaining the relationships with government agencies and other players, whether they be local or foreign, small or big, friends, colleagues, or relatives. Contacts in the host country not only need to be knowledgeable and reliable to help them deal with the foreign policies and procedures, they need to be responsible and trustworthy.

### **Source and roles of networking from SMEs owner/entrepreneurs perspective**

This section presents two cases of SME internationalization. The cases provide some company background, and their sources and roles of networking in their internationalization process.

## Company A

Company A is a family-owned food company, which began its operations in 1984. It started as a supplier of Malay traditional cakes to restaurants and hotels in Klang Valley areas. In the late 1980s, the owner attended formal entrepreneurship trainings provided by one of the government agencies. By mid-1990s, it began to penetrate into the Malaysian hypermarkets and expanded into international markets by first going to Brunei. The company's penetration into the hypermarkets was through the founder's own personal contacts. Through the hypermarkets, the company's products were brought into Singapore and Hong Kong.

By early 2000s, recognizing that its business had become stagnant in the past 5 years, the company then promoted its products for overseas' markets by participating in the international trade fairs organized by MATRADE, a government agency that is assisting Malaysian firms to better position their products and services in the global markets. It also started to seek help from government agencies for grants or loans. However, this process was difficult as the company needed to put a lot of efforts in getting information on the programs. After a long delay in getting its applications approve, the company finally received grants from *Majlis Amanah Rakyat* (MARA), one of the government agencies that offers grants and provides other supports to small businesses. Having the financial and promotional supports, by 2004 the company started to move aggressively into the international markets. In 2006, FAMA, a government agency that helps market agriculture produce, brought the company's products into the Vietnamese market. Thus far, the company produces all their cookies or biscuits in Malaysia and exports them abroad through direct exporting and through agents or trading companies. According to the entrepreneur:

...The company's overseas' sales are quite slow because of a lack of promotion. It is not that we don't want to do it aggressively, but we are short of budget. It is costly, more than 50,000 ringgit (about 16 K USD), which is a lot for a small company like us. That's why we really need the government support, in terms of promotion. Although we are given a chance to go to international exhibitions, after that we are on our own. There is no follow-up and coordination.

The company also had problems with keeping up with orders due to its lack of production capacity. Although the grants were available but the process took a long time because of red tape issues and lack of facilitation from the relevant agencies. Because of its lack of capacity, the company had to source out some of their products from other companies.

## Company B

Company B, formed in 1997 is an agro-manufacturing company which produces food products based on Roselle (which generally claimed to have similar properties to cranberries) and hibiscus. The company has its own research and development (R&D) in house, and manufactures its products at a rented factory provided by Malaysian Industrial Estate Limited (MIEL), a government agency, which builds factories in designated zones in support of SMEs' operations. In 1999, the company

participated in an exhibition organized by the Ministry of Agriculture at Kuala Lumpur International Airport, which resulted in the company becoming a supplier to the catering unit of Malaysia Airlines (state-owned airline). This brought the company's products into the multinational markets. Due to its reputation, it received business inquiries from Japan, Hong Kong, Singapore, and Middle-Eastern countries. In 2003, the entrepreneur decided not to limit the company to the small Malaysian market, therefore it formally ventured into overseas' markets.

In regard to R&D, through the entrepreneur's personal contacts, the company collaborated with Malaysian Palm Oil Board and two Malaysian universities. The collaborations resulted in the creation of more than 100 Roselle product formulations. Its network with the Ministry of Agriculture also enabled the company to join other international shows in Europe and Japan. In 2005, it participated in a business-matching program organized by the SME development authority where the company exhibited its products for 3 months in Japan. Being an agro-based company, it has links to the FAMA of Malaysia, which is the marketing arm for Malaysian agriculture produce. FAMA helps promoted the company's products to Netherland and Middle-Eastern countries. In addition, the company has developed relationships with MATRADE to gain exposure and penetrate into more international markets.

Thus far, the company pursues a direct exporting strategy for its Middle-Eastern markets in which the company manufactures its products in Malaysia and appoints an export agent to help with distribution. In the second strategy, both production and distribution were handled by the South African joint venture company. The introduction for the formation of the joint venture was provided by the entrepreneur's business associate. The company has a good market positioning in the South African market, but it faces some major challenges in the Middle-Eastern markets as indicated by the following:

...In South Africa, we are well supported under their SME development program. In Abu Dhabi, the market is big, but the market needs to be developed. This is where we need the government agencies to play an important role, particularly in support of our advertising and promotion, which is very costly. We need a full fledge commitment from the government, including a good and consistent follow-up system by FAMA and MATRADE.

The company admitted to having problems in getting funding from financial institutions, and that information on grants offered by the agencies are not well communicated as indicated in the following:

...We faced a lot of problems in getting loans from banks because the banks are not aware of what roselle business is all about. And we didn't go to SMIDEC initially, until we realized that they also offer funds for R&D.

The company also highlights problems with supply chain:

...I think one of the biggest problems we are facing is the supply chain. We need to have a concerted program, something about 300 to 400 hectares of land, solely to grow roselle. At this moment, it is an individual effort. The company is left to do it alone. FAMA should be the

leader in the effort to bring the farmers together, turning it into a hub for producers in roselle and hibiscus to sell their supplies. The country also needs an R&D center, for roselle to overcome the problems of ad hoc research. In Malaysia, we don't have a consolidated effort of the government authorities to assist growth of this industry.

### **Convergent perspectives of SME development experts and SMEs owners on sources and roles of networking**

Expert respondents indicate three major sources of networking, which are personal contacts, business associates, and institutions. According to them, institutional sources were the main source of networking drawn from the various ministries, government agencies, small medium industry supporting bodies, and the Free Trade Agreement; some of the important agencies include MITI, MECD, foreign embassies based in Malaysia and overseas, MARA, MIDA, and MATRADE. Small to medium industry-supporting bodies, such as SMIDEC, MTDC, Malaysian Industrial Development Finance (MIDF), MIEL, and Malaysian Productivity Center are also essential. The SMEs can also build contacts through the Free Trade Agreement by linking with the Malaysian Industrial Linkages Programs using the Malaysian government agencies to connect to other governments' bodies or with other SMEs from other countries. The contacts can also be from business-to-business involving Malaysian and other countries' SMEs.

The second source of networking was the relationship with "Business Associates". This refers to linking up with either larger, local or foreign-owned companies within Malaysia or the MNCs parent companies, other suppliers or other SME players, or becoming involved with global supply chains. The experts suggested seven potential functions of these linkages. These include serving as vendors to the MNCs' (either with local or foreign) parent companies; having strong relationships with other Malaysian SMEs; creating their own network with other companies within or outside Malaysia; entering supply chains with other global players; working with local suppliers to build up and use this as a launching pad for expansion, as well as networking with friends, relatives, and owners or entrepreneurs of foreign firms.

The experts implied that networks created through institutions and other players would be relatively ineffective unless the SME owners or other key personnel had the appropriate interpersonal skills to ensure an effective working relationship. We identify this source as "personal relations", where strong and appropriate personal relations with other SME owners, friends, relatives, and colleagues are important as part of the networking circle. The experts also identified seven strategies SMEs can use to foster personal relations that could help their companies venture into foreign markets.

In regard to the SME owners' perspective, company A utilizes three sources of networking: personal contacts, business associates, and institutions. As the company grows and rapidly internationalize, it no longer can rely on personal contacts and business associates. It requires institutional support. The company's personal

contacts lead to linkages with business associates. The support of the government agencies is only pursued after several years of business, first through entrepreneurial training, and then through business marketing and financing. The main problems in internationalization are the high costs of promotion, the lack of coordination among the multiple government agencies, the absence of monitoring on the company's progress, as well as perhaps also deficiencies in sustaining internationalization efforts.

Company B also utilizes three sources of networking in internationalizing its business: personal contacts, business associates, and institutions. Each of the networking type plays specific roles; institutions linkage lead to international promotion, personal contacts support R&D and product development, and business associates act as introducers leading to formation of an international joint venture company. The case demonstrates a more complex internationalization pathway of a high-technology agro-based company. The company highlights several challenges relating to internationalization including, high R&D costs, and lack of raw material supplies. In dealing with institutional support to solve these, the company faces issues of red tapes, lack of information, lack of coordination among agencies in the supply chain and R&D, as well as lack of follow-up on existing programs.

Overall, the convergent findings suggest that Malaysian SMEs have various alternatives regarding "what" they can access and "how" they can gain assistance for international activities. There are good sources of information for the SMEs venturing into foreign markets; however, the outcome of these myriad sources and functions can add to increased uncertainty and complexity of internationalization process. SMEs struggle to recognize the benefits arising from each source and this limits those benefits.

The overall findings of the sources and roles/functions of networking on assisting SME internationalization is shown in Table 3. The findings led to an integrated understanding of how and what networking involves, that is demonstrated in Fig. 1 in the "Discussion" section.

## Discussion

The present situation on SME networking internationalization based on the convergent views of the experts and SMEs is a complex process, but the network relationships are the key for Malaysian SMEs to internationalize. This finding corroborates other international studies which propose that network relationships can be effective means to assist firms going into international markets (see, e.g., Coviello and Munro 1995; Dana 2001; Johanson and Mattsson 1988; Ojala 2009; Zain and Ng 2006).

Based on our findings, we interpreted that the three sources (institutions, business associates, and personal relations) work in tandem. One source alone may not provide sufficient supports for sustainable internationalization. These networking linkages can initiate awareness, as well as trigger, accomplish, strengthen, and sustain SMEs internationalization. The Malaysian SMEs have almost overwhelming access to advice and support from many institutions, and networking with especially the institutions of SMIDEC and MATRADE is essential for SMEs wanting to venture out. The present situation on SME networking internationalization is shown in Fig. 1.

For the internationalization to take place, each type of networking has its own roles. Institutional networking (which could include for instance, extend beyond the ministries, government agencies, small medium industry supporting bodies to universities, research institutes, and others) has established links with “Business Associates”, in the small medium industry sector, such as with local and foreign MNCs, MNCs’ parent companies, local and foreign suppliers and other local and foreign SMEs. Therefore, the SMEs are linked into the global supply chains and involved with the international procurement center program. SMEs also receive support from the research institutes for R&D and product development, and from academics and researchers, who contribute empirical research information. They can also call on associations with “Personal Relations” including families, colleagues, friends, and relatives. The situation shows the interconnection between these three sources of networking. These linkages support initiation to internationalization that could trigger the owners and/or managers to internationalize. In addition, they also allow the SMEs to accomplish internationalization and then substantially support the sustainability or strengthen their internationalization activities.

Certainly, the SMEs have many sources and means to refer to for service and supports (see Table 3 and Fig. 1). The expert panel suggested that while “Institutions” agencies, including the policy makers (such as MITI, MECD, MARA, and MIDA) and the supporting government agencies (such as MATRADE, SMIDEC, MIDF, and MIEL) have a crucial role in facilitating the networking process, they each also pursue their own strategies to assist SMEs. We foresee that taken together, while the SMEs could gain a number of benefits from these networking linkages, the networking that leads to SME internationalization process is complicated. The plethora of agencies with different strategies and functions can create confusions for the SMEs, in regard to which organization provides what services and who to approach for what advice and information.

Based on the interpretation of our findings, this paper proposes a systemic SME networking linkage for internationalization process, which is discussed in the following section.

### Proposed networking linkage model for SME internationalization

The current situation of SME networking indicates the many players have a role in helping SMEs internationalize. Therefore, drawing on our findings, this article proposes a networking linkage model to ease the complexity of the internationalization process (shown in Fig. 2). Institutional perspective suggests the importance of existence of institutions in facilitating internationalization (Yiu and Makino 2002). The implementation of this view however, requires integration of a systems thinking perspective. This perspective is a modeling technique, which integrates environment as an important element (Barton et al. 2004). In particular, one of the systems thinking perspectives, which is the Viable System Model emphasizes on the importance of the functions of coordination, monitoring, and facilitation in contributing toward viability of a system, including at the policy level (Beer 1972; Espejo and Gill 1997).

Based on the Viable System Model framework, coordination and facilitation are the mechanisms that support multiple agencies to achieve cohesiveness in



**Table 3** Convergent findings of sources and roles of networking in assisting SME internationalization

Sources of networking	Roles/functions of networking
1. Institutions	
<ul style="list-style-type: none"> <li>• Ministries (MITI, MECD, Foreign Embassies)</li> <li>• Government Agencies (MARA, MIDA, MATRADE)</li> <li>• Small Medium Industry Supporting Bodies (SMIDEC, MTDC, MIDF, MIEL, MPC)</li> <li>• Free Trade Agreement Program (Industrial Linkages Programs; Government to Government; Government to Business; Business to Business)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Internationalize through government agencies or government agencies as facilitator</li> <li>▪ Participate in exhibitions, thus enhance networking within and outside Malaysia</li> <li>▪ Involve in industrial linkages programs</li> <li>▪ Network with small to medium industry development programs</li> <li>▪ Utilize appropriate foreign entry modes and relevant support agencies</li> <li>▪ Contact other related government agencies especially when they are not familiar with rules, procedure or political issues such as customs, exporting or forwarding agents</li> <li>▪ Network with colleagues from previous employment</li> <li>▪ Enhance individual networks</li> <li>▪ Become suppliers through Free Trade Agreement integration</li> <li>▪ Get assistance and information support from Malaysian Embassies</li> <li>▪ Seek information and assistance from foreign embassies</li> </ul>
2. Business associates	
<ul style="list-style-type: none"> <li>• Big local and foreign companies within Malaysia (MNCs)</li> <li>• MNCs parent companies</li> <li>• Other suppliers</li> <li>• Other SME owners/entrepreneurs</li> <li>• Global supply chain</li> </ul>	<ul style="list-style-type: none"> <li>▪ Partner with local and foreign MNCs</li> <li>▪ Become a vendor/supplier to MNCs parent companies</li> <li>▪ Build own network with local and foreign MNCs</li> <li>▪ Establish strong relationships with other local SMEs</li> <li>▪ Link with global supply chains</li> <li>▪ Collaborate with local and foreign suppliers</li> <li>▪ Develop and/or maintain networking with other business associates</li> </ul>
3. Personal relations	
<ul style="list-style-type: none"> <li>• Owner-to-owner</li> <li>• Owner-to-other</li> <li>• With friends, relatives, and colleagues</li> <li>• Through International Procurement Center</li> <li>• Through exhibitions, seminars, conferences</li> </ul>	<ul style="list-style-type: none"> <li>▪ Create own networking through international procurement center</li> <li>▪ Provide extended networking</li> <li>▪ Enable participation in international exhibitions (in or out of Malaysia)</li> <li>▪ Make own networking with locals who are based at the host countries</li> <li>▪ Create strong and long lasting networking with other same ethnic business owners (usually for Chinese ethnic) within and outside Malaysia</li> <li>▪ Maintain personal relationship to ease the process of internationalization</li> <li>▪ Maintain networks with friends, families and relatives</li> </ul>

Full names of the agencies/institutions are given in Appendix A

performing their functions. These mechanisms can include facilitation of shared understanding and buy-ins of important decisions and actions. Monitoring is a function that collects information from the operating agencies as input into the management of the system (the policy makers' offices) and distributes information from the management to the operating agencies. Based on these, problems that occur can be detected and corrected. This process, which provides check and balance to the system, enables continuous renewal of the entire support program (Devine 2005).

Our proposed institutional systems thinking model suggests that one unit coordinates and facilitates networking to assist SMEs' internationalization. The suggested central unit is placed in the circle of the triangulation between the three networking sources so they maintain direct links with each other; these connections are shown with solid arrows. These three networking sources should handle and provide access to extensive information regarding the internationalization process. It is essential that institutional representatives supply information directly to the central unit. Business associates also need to be encouraged to supply information on international opportunities through this same source; the connections for this are illustrated in the dotted lines inside the triangle. Following the Viable System Model, it is also important that the entire system include a monitoring unit, which ideally is independent of the facilitation and coordination functions.

Using this approach should provide SMEs with better access to information on international opportunities and more efficient links with relevant agencies. In addition, helping to build networks can still draw on other sources; for example, rather than exclusively relying on the information given by the central unit, the SMEs themselves can enhance their networks by building direct links with business associates through participating in exhibitions, seminars, or conferences within and/or outside Malaysia. It is evident that these are the platforms for networking to occur and thus provide opportunities for SMEs to extend their internationalization process as information from others may add value (Evers and Knight 2008). Nonetheless, Mahajar and Carraher's (2006) suggestion that SMEs' owners/managers need to critically filter information to make sure that the information is relevant and accurate, as well as updated needs to be heeded.

We strongly believe that better accessibility to international opportunities would arise from coordinating and facilitating the networking process. Incidentally, the Malaysian Government has already acted to set up an advisory service for SMEs for business, financial management, and technical advice since this data was collected. However, this does not include consolidating all sources of information, and thus a single body facilitating the myriads of operating agencies' roles might be a wiser choice. It is suggested that the management of this unit be represented by all three central networking sources but led by the officials of the existing centralized implementation and coordination unit. This is to ensure effective distribution of resources to SMEs. The resulting collaboration of networking strategies among all the important bodies for SMEs international expansion would bring most benefit.

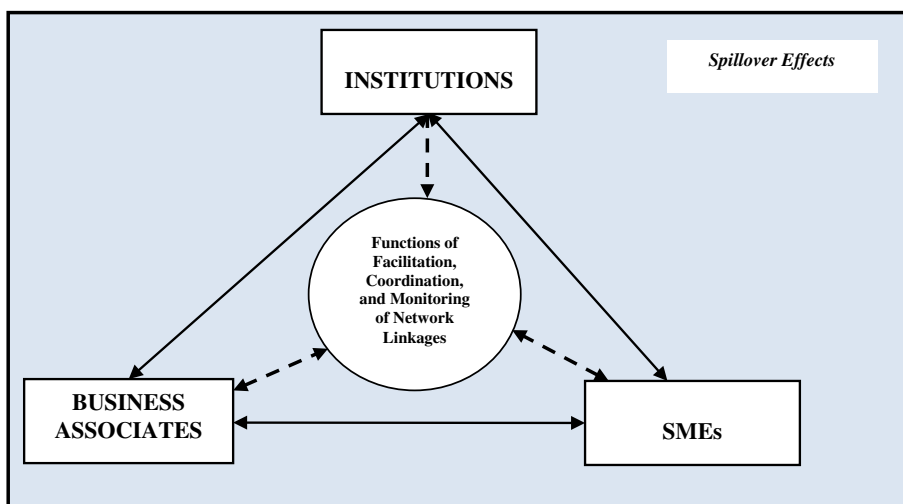
More importantly, having the functions of coordinating, facilitating, and monitoring networking, as illustrated inside the triangle, would allow better organization of SMEs wanting to enter into networks. It would also give SMEs clearer information on whom to contact and where to access knowledge or

information for overseas' ventures. This does not reduce the role of others in providing information but recognizes the central role networking and relationship building have in assisting SMEs wanting to go international. Adopting such an approach would provide practical benefits to enhance the networking process to ensure effectiveness and ultimately better support in promoting international expansions. Moreover, as shown in Fig. 2, the networking linkages generate spillover effects into the environment of the interactions. Over time, through more efficient linkages, these spillovers can have spiraling effects into the overall business communications that can promote business, economic, and societal development.

This institutional systems model conceptualization fulfills the dearth of research in international entrepreneurship in emerging economies, and thus position the research within the general theory of institutional support for SME development (Kshetri and Dholakia 2011; O'Gorman and Evers 2011; Veciana and Urbano 2008). As this study focuses only on the internationalization aspect of SMEs business expansion, research on the institutional support of the *overall* SME development surfaces as rich areas of future research. In regard to its relevance to practice, the findings that inform policy makers on their existing practices of information delivery enable them to institute necessary improvements. Insights on the existing situation on information about international opportunities and other supports provide actionable points to SMEs to enhance the effectiveness of their business internationalization.

## Conclusions

The convergent viewpoints of the experts and the entrepreneurs on Malaysian SME internationalization process did identify some unique aspects particularly in regard to “*what*” sources and “*how*” networking assists SMEs gain exposure to international



Note: Solid Line: direct network; Dash Line: indirect network

Fig. 2 Proposed networking linkages model for SMEs internationalization

opportunities. Three main sources of networking were the “Institutions”, “Business Associates”, and “Personal Relations”. The three networking sources are interrelated and so a network linkage model would allow efficient distribution and access to information on international opportunities. In ensuring the accomplishment of internationalization, this study suggests a systemic approach toward supporting the creation and management of networking linkages. This emergent model emphasizes integration of coordination, facilitation, and monitoring in institutional support for networking and internationalization. All the three elements are necessary, particularly in ensuring cohesive operations among the myriads of agencies that are involved in supporting internationalization. In particular, monitoring serves a “two-prong” function; one is to ensure sustainability of SME internationalization efforts and the other is to retain and renew its corresponding supporting mechanisms. A support system that lacks coherences and monitoring is not only detrimental to the SMEs development but also may cause deficiencies to the operations of the institutions themselves, perhaps can lead to their weakening or even demise. Therefore, institutional view, in combination with a systems thinking perspective directly support the establishment of linkages leading to recognition and development of international business opportunities. Thus, highlighting the importance of these two perspectives in explaining international entrepreneurship.

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## Appendix A

### List of abbreviations

Abbreviations	Full text
APEX	Asia-Pacific Exhibitions
FAMA	Federal Agriculture Marketing Authority
IKMAS	Malaysia and International Research Institute
MARA	<i>Majlis Amanah Rakyat</i> (The Council of Trust for Indigenous Citizen)
MATRADE	Malaysia External Trade Development Corporation
MECD	Ministry of Entrepreneurships and Cooperation Development
MIDA	Malaysian Industrial Development Authority
MIDF	Malaysian Industrial Development Finance
MIEL	Malaysian Industrial Estate Limited
MITI	Ministry of International Trade and Industry
MNC	Multinational Corporations
NSDC	National SME Development Council
OIC	Organization of the Islamic Conference
SIRIM	Standards and Industrial Research Institute of Malaysia
SMEs	Small to Medium Sized Enterprises
SMIDEC	Small and Medium Industries Development Corporation

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