

## Effect of Internationalisation on Balanced Scorecard among Malaysian Small and Medium Enterprises

POH LING CHONG, TZE SAN ONG, AMALINA ABDULLAH & WEI CHONG CHOO

### ABSTRACT

*The purpose of this paper is to identify the relationships between dimensions of internationalisation on balanced scorecard (BSC), among Malaysian small and medium enterprises (SMEs). Internationalisation covers the dimensions of knowledge, trust and commitment. Internationalisation can benefit the firm performance of SMEs in Malaysia which is measured using balanced scorecard, by increasing the involvement of SMEs in international business. A sample of 404 data was considered as the final sample size for this study. By using Structural Equation Modelling (SEM), the dimensions of internationalisation were observed to test the hypotheses. The results indicate that internationalisation as a whole does not have a role in the results of BSC among Malaysian SMEs. However, this also indicates that internationalisation is useful to reach the firm performance mostly in larger organisations because they require more strategic internationalisation to be more triumphant over their rivals which the larger organisations have. Furthermore, most SMEs in Malaysia are relatively new and being mostly family enterprises, these SMEs in Malaysia are more knowledgeable to perform domestic business. Therefore, this research conveys an understanding to the owners and managers to quickly achieve BSC results. Finally, this study brings some conclusions to the policy makers and regulators as well.*

*Keywords: Internationalisation; balanced scorecard; Small and Medium Enterprises (SMEs)*

### INTRODUCTION

Small and Medium Enterprises (SMEs) are currently representing the more significant economic contribution in Malaysia. According to the newly-released Economic Census done by the Department of Statistics Malaysia in 2016, there are 907,065 SMEs in Malaysia, which made up 98.5 per cent of total business establishments in the country. Concurrently, internationalisation of business is essential for SMEs because it facilitates the encroachment of the business world by offering firms the opportunities to prosper in an increasingly competitive world and to enhance their performance which is measured by Balanced Scorecard.

A higher involvement in internationalisation activities has been proven to produce better firm performance, whereby in the European Union (EU), according to the Flash Euro-barometer 421 Report (2015), SMEs contribute over 99 per cent of European businesses and provide 85 per cent of all new jobs. According to the final report of Internationalisation of European SMEs (2016/2017), more than 50 per cent of SMEs that are involved in internationalisation activities reported an increasing turnover. Furthermore, SMEs that are currently internationalised reported higher employment growth from 2015 and 2016. For example, SMEs that are both importing and exporting reported an increase of 10 per cent in employment rate compared to only 3 per cent for firms that do not practice internationalisation.

Additionally, unsupportive export environment which results in low export rate also hinders the growth of SMEs. For instance, in 2007 and 2008, the Malaysian economy

witnessed a financial crisis that severely affected the overall Gross Domestic Product (GDP) growth in 2009 (Department of Statistics 2012). This is because the export rate was low and there were minimal internationalisation activities that took place. It is understood that internationalisation is a significant driver for the success of SMEs in Malaysia. However, internationalisation is often being overlooked which can be identified as the primary impediment in Malaysian SMEs. This can be seen by the Malaysian share of SMEs' GDP to overall GDP, whereby in 2010 it was only around 32.2 per cent to overall GDP, and this has increased only a little to 36.6 per cent in 2016 as reported by the Department of Statistics Malaysia and SME Corporation Malaysia. Therefore, the economic contribution of SMEs in Malaysia is still low compared to the overall country's economy.

Hence, the lack of internationalisation, might be the reason for the low contribution of Malaysian SMEs. These dimensions of knowledge, trust and commitment are dimensions under internationalisation, which were adapted from the Revised Uppsala Internationalisation Process Model (RUIP Model). Also, the SMEs internationalisation's relationship to firm performance, specifically using Balanced Scorecard (BSC) has not been conclusively found, and the contribution, as well as the empirical evidence of internationalisation to BSC, is still inadequate. This shows the common problems with Malaysian SMEs and this research is crucial to find out the dimensions of knowledge, trust, commitment and opportunity development in internationalisation. Thus, the purpose of this paper is to examine further the dimensions in the internationalisation

of SMEs in Malaysia that will bring about better firm performance, measured by BSC.

#### LITERATURE REVIEW

This section discusses the internationalisation process in detail. There are several dimensions of internationalisation when SMEs and BSC are being considered, and this paper, in particular, is emphasising on all the dimensions of internationalisation. Moreover, the following section provides the extensive elaboration of internationalisation.

#### INTERNATIONALISATION

Internationalisation is an obscure term that is clarified uniquely from research to research. As per Calof and Beamish (1995), it is “the process of adopting firms’ operations like strategy, structure, or resources into international environments”. Weltch and Luostarinen (1988) defined internationalisation as the increasing involvement of the firm in international activities. As per Schweizer et al. (2010), it is where firm undertakings for a better performance inside the network in global markets. There are a couple of entry modes accessible for the process of internationalisation or moving into an abroad market. Exporting is the conventional approach to enter the international market. SMEs regularly utilise this mode because they face issues of shortage of knowledge, experience and resources. For SMEs which suffer a lack of financial resources, licensing approach of entry is valuable. Singh et al. (2010) mentioned that licensing is the point at which a firm, called the licensor, leases the privilege to utilise its intellectual properties like technology, particular business skills, and brand names, to another firm, called the licensee, in return of a fee.

Dalle and Potts (1999) perceived joint ventures as a transitory contract which empowers at least two parties to complete transactions jointly. According to Gale and Luo (2004), the obligations and privileges of individual parties, risk allocation, distribution of profits, and additionally dispute resolutions ought to be determined in a joint venture contract. Besides, there are two sorts of wholly owned subsidiary: Greenfield investment and Acquisitions. Greenfield investment is the foundation of another wholly owned subsidiary. Hitt et al. (2009) mentioned that most of the time, it is complicated and possibly expensive, yet it can give full control to the firm and has the most potential to provide a better than expected return. Hitt et al. (2009) further mentioned that acquisition can turn into the most substantial way of expanding into international business because of its fast access.

There are two Uppsala models for internationalisation of SMEs. The first one is the Uppsala Internationalisation Model (U-Model) by Johanson and Vahlne (1977, 1990) which rests on the resource-based view that has its origin from the classical theory of the firm (Penrose 1959). It was based on research on the process and order that several Swedish manufacturing firms tend to follow during their internationalisation processes in the late 1960s and 1970s.

It places the process of internationalisation as a process for expanding experiential learning (Penrose 1959) and development over some time and as an internal view of the capabilities and incremental steps of a firm (Johanson & Vahlne 1977). Moreover, the primary concepts of the Uppsala Model are knowledge, learning, uncertainty, risk and commitment etc.

This study is based on the RUIP Model, which originated from the first U-Model published in 1977. Due to many changes in business practices and advances since 1977, the model has been revised several times (Johanson & Vahlne 2003; 2009). Specifically, the new model highlights the primary of networked businesses and interdependent relationships in the external international business environment (Johanson & Vahlne 2003; 2009). The new revised model does not observe a firm as an isolated independent unit of analysis any longer but puts a great emphasis on the market and the network relationships between firms in the network (Johanson & Vahlne 2009). New knowledge is developed in these relationships whereby there is potential for learning and for building trust and commitment, both of which are preconditions for internationalisation (Johanson & Vahlne 2009). The following sections discuss one of the three dimensions of internationalisation which will be used in this research, which are Knowledge, Trust and Commitment.

#### KNOWLEDGE

From the viewpoint of the network, the concept of relationship-specific knowledge is developed through interaction between two partners. This interaction includes knowledge about each party’s various resources and capabilities (Johanson & Vahlne 2009). Furthermore, this interaction could help to contribute to more general knowledge about international relationship development which can, in turn, assist the partners to learn more ways for them to develop different and transferable relationships in another context (Hoang & Rothaermel 2005). To explain further, partners may be located in different countries, for example, customers in one country and suppliers in another country and such learning can occur in these types of relationships (Johanson & Vahlne 2003). In business networks, knowledge development is not only a matter of learning existing knowledge from other parties, but it also includes interaction between the buyer’s user knowledge and the seller’s producer knowledge which can also result in new knowledge (Johanson & Vahlne 2009). A firm’s ability to pick up knowledge is crucial to a specific end goal to internationalise quickly in the quest for growth (Autio et al. 2000; Oviatt & McDougall 1995). Notably, knowledge is a crucial asset driving the worldwide growth of smaller firms (Barrett & Wilkinson 1985; Cavusgil & Godiwalla 1982; Seringhaus 1987; Yli-Renko et al. 2002). The amassing of product and innovative knowledge enables firms to perceive and misuse new product opportunities

and is an essential facilitating condition for international growth (Autio 2005; Oviatt & McDougall 1994; Sapienza et al. 2005).

#### TRUST

Blomqvist (1997) defined trust as, “Actors’ expectation of the other party’s competence and goodwill.” This is related to the emotional or affective dimensions in relationships, and it is continuously present in the concept of knowledge on internationalisation. This dimension should be explicitly present in the process of business internationalisation (Jarratt & Ceric 2015). Both active and cognitive elements are included in many of the researches done on social capital, trust and other similar concepts (Ren et al. 2016). Affective dimensions are essential for understanding the relationships in this study. It is found that trust plays a vital role in researches on relationship development (Morgan & Hunt 1994) and business networks (Johanson & Mattsson 1987).

#### COMMITMENT

Commitment may be developed from the trust if there are willingness and positive intentions. Therefore, trust is a requirement for commitment, and this conclusion is proven in the results of a study by Morgan and Hunt (1994). It means that there is a desire to continue the relationship or a willingness to invest in the relationship if the trust does lead to commitment (Ashnai et al. 2016). Commitment is an unseen force that binds the members of a network together. Some networks are stronger in commitment than the rest, and likewise, some networks are weaker in commitment compared to the others (Colla, Ruiz-Molina, Chastenet De Gery, Schultz, Deparis & Lemmet 2018). Whether the network can be strengthened or weakened depends mostly on the degree of commitment that will persist when partners believe that continuing a relationship is in their long-term interest. The critical factor in committing is opportunities, but another factor is a dependency. To illustrate, one partner may not necessarily depend on or appreciate the things that another party does. However, for the sake of long-term interests, some actions will have to be tolerated (Thorelli 1986).

#### BALANCED SCORECARD

Several researchers including Najafi et al. (2013), Birinci and Eren (2013) and Leelakusolvong (2009) noted that the firm performance is an integral part of the enterprise itself because this is the primary indicator where people can judge whether the enterprise is doing well. The firm performance can serve some functions as well as a few purposes. The measurement systems devoid of cause and effect judgment may also be eligible for the BSC (Moghaddam 2012). It has become an accounting, finance and management instrument, typically utilising a strategem plan to demonstrate the connection among measures and factors (Meyer et al. 2014; Morrisette &

Oberman 2013; Speckbacher 2003). In contrast, there is an observation in the literature (Morrisette & Oberman 2013) with the intention of the necessary implication of thought-out administration with performance management for the organisation, which is SMEs in this particular research.

Many SMEs are principally mission determined, and the BSC is centred on acquiring purpose while connecting jointly with the SME’s perspective, it is an attractive and considerably significant strategic work out for SMEs while considering the firm performance. Niven (2008) recommended that the numerous aspects of the balanced scorecard be supposed to be measured in assessing firm performance. This is for the reason that information criticism gained as of these perspectives helps SMEs to construct necessary adjustments the majority significant to the business achievement. Consequently, Kaplan and Norton (2001), Luen et al. (2013) and Moghaddam (2012) framed the BSC to gather contemporary dynamic business requirements through supplementing monetary evaluates with indicators beginning with the internal business perspective, learning and growth perspective, financial perspective and customer perspective.

As a result, the BSC provides managerial guidance with comprehensive cross-functional frameworks from which they need to assess the organisational performance (Fang & Lin 2006; Kaplan & Norton 1992; 1996a; 1996b; 2001; Wang 2006). According to Birinci and Eren (2013), the BSC was adapted to focus on the lack of profit motive within the SMEs. In the SMEs, the balanced scorecard can be applied to recognise the linkages among the goals and objectives and organisational outcomes. In this approach, it is projected (Kaplan & Norton 1996b; Leroux 2005) that the BSC relations financial consequences with operational data thereby creating avenues to modify or line up operations with long-term enterprise goals, such as how the BSC has been adapted to measure the firm performance in the SMEs are addressed in the remainder of this segment (Kaplan & Norton 2000; Niven 2008).

#### HYPOTHESES DEVELOPMENT

According to Welch and Luostarinen (1988), internationalisation is a process whereby the firm increases its involvement in international markets. It is vital for SMEs in developing countries to internationalise due to increasing competitive pressure (Ahmad et al. 2010; Etemad 1999; Etemad 2004). Therefore, the SMEs could carry out internationalisation and by doing so, the SMEs are likely to be exposed and gain more international business. Also, the SMEs can achieve more trust because their business is more well known in other countries, and subsequently, opportunities can be developed from there. This is an indication of linkage between internationalisation and BSC which measures the firm performance, and the link can be portrayed as:

H1: Internationalisation (INT) is positively related to BSC.

Firms that are engaged in improving new knowledge have been found that this action will affect the firms' performance (Borjigen 2015; Bose 2003; Lee 2001; Olander et al. 2014). According to Norman (2002), in order to achieve the desired outcomes of firm performance, the firms need to share as much of the right kind of knowledge as possible (Heiman & Nickerson 2004; Hormiga & García-Almeida 2016; Norman 2002). In the Malaysian context, this knowledge is mentioned in a study by Azam (2015). A firm's ability to learn is crucial to help expedient primary management goal to internationalise quickly in the quest of growth and better performance (Autio et al. 2000; Oviatt & McDougall 1995). This is an indication of linkage between knowledge and BSC and can be illustrated as follows.

H1a: Knowledge (KN) is positively related to BSC.

In business, trust plays a significant role because it will enhance the business relationship and strengthen personal ties of the parties involved (Argyris & Schon 1996; Senge 1992). Previous authors have stated that trust, which is a dimension of internationalisation, has a relationship towards BSC which is a measurement for firm performance (Lins et al. 2016; Tzafirir et al. 2004). Trust is an essential word in the business arena, where it is often linked to BSC score (Caserani 2014). Trust can be viewed as an input of useful tool to enhance business relationship (Ceserani 2014; Dovey 2009). In the Malaysian perspective, Chowdhury (2005) found that both affect- and cognition-based trust have a positive influence on the firm performance in business, especially small-sized businesses. This concludes that the Malaysian SMEs are in need to build up the trust component in order to improve their firm's performance. Thus, the relationship can be described as below.

H1b: Trust (TR) is positively related to BSC.

The dimension of commitment, in the context of business internationalisation, has a vital role to play in the firm's performance (Brown et al. 2011). Commitment is

often discussed in the business setting when it comes to maintaining the new and existing networks (Bettencourt et al. 2017). These networks can be anything, such as business to business (B2B), or business to customers (B2C). Commitment is an unseen force that binds the members of a network together. Some networks are stronger in commitment than the rest, and likewise, some networks are weaker in commitment compared to the others (Colla et al. 2018). To enhance customer relationship management, usually, firms do and maintain the commitment with their clients and customers, whereby this could be the preliminary stage for better firm performance, measured by BSC. Therefore, the link can be stated as below.

H1c: Commitment (CM) is positively related to BSC.

Derived from the literature support and related evidence, this concern puts a conceptual framework which is exhibited in Figure 1.

#### METHODOLOGY

The research method of this study is the survey method. The survey method is the most appropriate method for the data collection as this method helps to predict the nature of the total population from which the sample is selected (Fowler 1988; Sapsford 1999). Survey research method often leads to achieve accuracy and relatively cost-efficient data for the research (Sekaran & Bougie 2016; Kothari 2004). This method can be developed in less time and ability to collect data from a large number of respondents (Neuman 2007). Besides, the unit of analysis in this study is the enterprise itself, and the respondents are business owners, entrepreneurs and managers who will represent the respective SME. The sampling frame in this study contains the SMEs that has internationalisation activities and are obtained from the directories of the Malaysia External Trade Development Corporation (MATRADE).

Table 1 shows the number of SMEs listed in MATRADE directory by industry. Specifically, MATRADE provides two directories, which are the manufacturing directory and the services directory. The sampling frame contains more

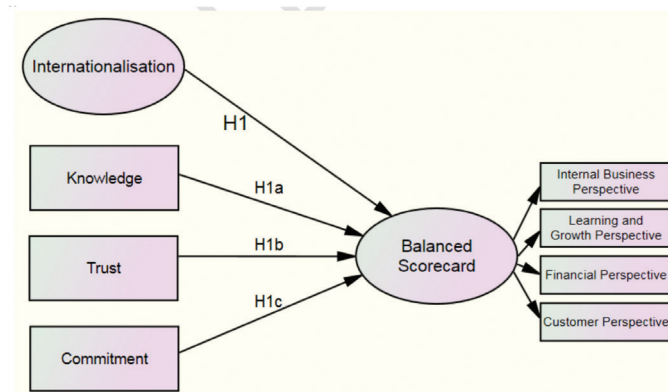


FIGURE 1. Theoretical Framework

TABLE 1. Number of SMEs Registered with MATRADE by Industry

| Industries    | No. of Companies | No. of Large Companies (Berhad) | No. of SME |
|---------------|------------------|---------------------------------|------------|
| Manufacturing | 18308            | 167                             | 18141      |
| Services      | 9014             | 129                             | 8885       |
| Total         | 27322            | 296                             | 27026      |

Source: Malaysia External Trade Development Corporation (2017)

than 18,000 manufacturing and 9,000 service SME firms in Malaysia, which gives a ratio of approximately 67 per cent to 33 per cent. The explanation on the classification of sectors is based on the Guideline issued by SME Corporation.

The sectors that will be used for this study is the manufacturing industry and services industry, as per the MATRADE directories. To meet the research aim, this study employs a stratified sampling technique to carry out the survey. For this purpose, the SMEs are chosen from the sampling frame representing the population and are grouped into two broad criteria:

The businesses that will be selected would fulfil the criteria of Small and Medium Enterprises (SMEs) in either the service sector or the manufacturing sector.

The respondents who will take part in this study comprised of business owners, top management and entrepreneurs. These groups of people are chosen because they are knowledgeable about the operation of the business, including internationalisation aspect of the firm, the business network and aspect related to firm performance. The person should be involved in decision makings related to business networks, firm planning and implementation.

Table 2 shows the determination of sample size of this study. Based on the evidence that the response rate is about 20 per cent (Bakar & Ahmad 2010), 1,500 questionnaires were sent out to obtain the target response of 300. In addition, based on the directory from MATRADE which is separated into manufacturing and services, the manufacturing sector makes up 67 per cent, and the service sector makes up 33 per cent of the total companies. Consequently, stratified sampling was done based on the ratio to select the companies from the list. Hence, 1000 questionnaires were sent to the manufacturing sector and 500 were sent to the service sector. Sekaran and Bougie (2016) stated that stratified random sampling involves a process of stratification or segregation, followed by random selection of subjects from each stratum.

This study used a 7-point Likert scale for respondents to provide a relative assessment of various statements in the questionnaire on a continuum ranging from 'very strongly disagree' to 'very strongly agree' (Ward et al. 1998). Moreover, the measurement items in this study included multiple scale items as used in prior studies and revised as required for this study. Table 3 shows a total of thirty-two (32) items were developed to measure the internationalisation for the firm performance of SMEs in Malaysia.

Data collection method used in this study is mail survey and face-to-face technique, whereby the SMEs owners and managers were the target respondents. For the mail survey method, the enumerators pursued with telephone calls as a follow-up and to make plans with the respondents to collect the data. As for the face-to-face technique, the enumerators personally met the respondents to interview them to collect the data. As this research employs Structural Equation Modelling (SEM), the question of sample size adequacy remained as a prime concern in the application of SEM software. A sample of 404 data was considered as the final sample size of the current study. As mentioned, this research employs SEM for statistical analysis of data, which is developed for analysing the interrelationships among multiple variables in a model (Zainudin 2012). Besides, SEM techniques have been significant to confirm theoretical models for using a quantitative approach. Therefore, evaluating these circumstances, this study considers SEM as a suitable tool for analysing quantitative data in research progression.

## RESULTS

This section begins with the demographic information of the respondents. The demographic data comprises of gender, age, race, level of education and designation of the respondents in the respective enterprise. Table 4 displays the respondents' demographic data in summary.

TABLE 2. Determination of Sample Size

|  |        |
|--|--------|
| Estimated population (from MATRADE after omitting large companies) | 27,000 |
| The minimum sample size required for data analysis                 | 300    |
| Expected response rate (20 per cent)                               |        |
| Sample size based on industry:                                     |        |
| Manufacturing (67 per cent)  | 1000   |
| Services (33 per cent)   | 500    |
| Total  | 1500   |

TABLE 3. Measurement Items

| Code | Item   | Source   | Variables and Dimensions |
|------|--|--|--------------------------|
| Q1   | Our enterprise's knowledge of operating in an existing international market is the major factor that influences future international decisions for that market | Tykesson and Alserud (2011)                                | Knowledge                |
| Q2   | Knowledge drives our enterprise to enter the international markets.  |  |                          |
| Q3   | Knowledge influences our enterprise's internationalisation decisions.  |  |                          |
| Q4   | Market knowledge decreases uncertainty and therefore allows our enterprise to have an increment in commitment for internationalisation.                        |  |                          |
| Q5   | Trust is an essential factor in our enterprise for internationalisation.   | Johanson and Vahlne (2009),<br>Tykesson and Alserud (2011) | Trust                    |
| Q6   | Trust drives our enterprise to enter international markets.  |  |                          |
| Q7   | Our enterprise recognises trust as a resource for business internationalisation.   |  |                          |
| Q8   | The investment decision of our enterprise depends on the Trust gained during early entry into the international market.  |  |                          |
| Q9   | Commitment drives our enterprise to enter international market.  | Tykesson and Alserud (2011), Rasula et al. (2012)          | Commitment               |
| Q10  | Our enterprise believes that commitment helps to drive internationalisation.   |  |                          |
| Q11  | Our enterprise thinks that incremental steps are advisable when going abroad, starting with low commitment and then steadily increasing the commitment.        |  |                          |
| Q12  | The commitment of our employees is achieved through workshops.   |  |                          |
| Q13  | The commitment of our employees is achieved through training programmes  | Wadongo et al. (2010),<br>Chen et al. (2011)               | Balanced Scorecard       |
| Q14  | Our enterprise introduces a higher quality of products/services.   |  |                          |
| Q15  | Our enterprise introduces improved and innovative product processes.   |  |                          |
| Q16  | Our enterprise achieves better product/service cycle time.   |  |                          |
| Q17  | Our enterprise achieves lesser defects of product/service.   |  |                          |
| Q18  | Our enterprise achieves lesser machine breakdowns.   |  |                          |
| Q19  | Our enterprise achieves an increase in number of employees.  |  |                          |
| Q20  | Our enterprise achieves a lower absenteeism rate among employees.  |  |                          |
| Q21  | Our enterprise achieves a lower turnover of employees.   |  |                          |
| Q22  | Our enterprise achieves improved technical skill among the employees.  |  |                          |
| Q23  | Our enterprise achieves more frequent employee training and development programmes.  |  |                          |
| Q24  | Our enterprise achieves an increase in total revenue.  |  |                          |
| Q25  | Our enterprise achieves an increase in profit margin.  |  |                          |
| Q26  | Our enterprise achieves an increase in market share.   |  |                          |
| Q27  | Our enterprise achieves a higher level of cost reduction.  |  |                          |
| Q28  | Our enterprise achieves higher customer base for the enterprise's products/services.   |  |                          |
| Q29  | Our enterprise achieves higher number of new customers.  |  |                          |
| Q30  | Our enterprise achieves higher customer satisfaction by having lesser customer complaints towards the enterprise's products/services.                          |  |                          |
| Q31  | Our enterprise achieves better customer retention and loyalty by having more repeat customers.   |  |                          |
| Q32  | Our enterprise achieves faster respond rate to customer complaints.  |  |                          |

Table 4 shows that both male and female are in good numbers participating in the study. Among 404 respondents, it is observed that 231 are male and 173 are female, which means the percentages of male and female respondents are 57.2 per cent and 42.8 per cent respectively. Besides that, Table 1 also shows that the age range of 41-50 years is 46.8 per cent and with the highest frequency of 189, and 31-40 years age range covers 43.8 per cent and having a second highest frequency of 177 out of 404. Additionally, the age range of 21-20 years consists of 9.4 per cent with 38 respondents. Just like age diversity, there is also the diversity of races who are engaged in SMEs, where the engagement of Malay, Indian and Chinese are 27.6, 59.4 and 13.6 per cent respectively. Hence, the Chinese have a more significant percentage compared to Indians after Malays. Out of 404 respondents, about education level, 38 respondents (9.4 per cent) passed secondary school, 120 respondents (29.7 per cent) hold a diploma, 185 respondents (45.8 per cent) have a bachelor degree, and only 61 respondents (15.1 per cent) were master degree holders. Out of these, 160 respondents (39.6 per cent) are managers, 137 respondents (33.9 per cent) are entrepreneurs, and 107 respondents (26.5 per cent) are owners among those 404 respondents. Apart from the demographic information, the enterprise information outlines an enterprise which is the background of the venture. In this particular study, the enterprise information indicates five major things covering types of business, number of employees, ownership, regional

TABLE 4. Demographic Information of Respondents (N=404)

| Demographic Variable      | Frequency | Percentage |
|---------------------------|-----------|------------|
| <b>Gender</b>             |           |            |
| Male                      | 231       | 57.2       |
| Female                    | 173       | 42.8       |
| <b>Age</b>                |           |            |
| ≤20                       | 0         | 0          |
| 21-20                     | 38        | 9.4        |
| 31-40                     | 177       | 43.8       |
| 41-50                     | 189       | 46.8       |
| ≥50                       | 0         | 0          |
| <b>Race</b>               |           |            |
| Malay                     | 109       | 26.7       |
| Chinese                   | 240       | 59.4       |
| Indian                    | 55        | 13.6       |
| <b>Level of Education</b> |           |            |
| Primary School            | 0         | 0          |
| Secondary School          | 38        | 9.4        |
| Diploma                   | 120       | 29.7       |
| Bachelor                  | 185       | 45.8       |
| Master's Degree           | 61        | 15.1       |
| <b>Designation</b>        |           |            |
| Entrepreneur              | 137       | 33.9       |
| Owner                     | 107       | 26.5       |
| Manager                   | 160       | 39.6       |

area and internationalisation activity. Table 5 presents the information regarding the companies surveyed in the study.

Refer to Table 5, the percentages of manufacturing and service industries are 14.9 per cent and 85.1 per cent respectively, where 60 enterprises are involved with manufacturing activities, and 344 enterprises are engaged with the service sector. There are 233 enterprises or 57.7 per cent which have 6-30 employees, 109 enterprises or 27 per cent have 31-75 employees, 47 enterprises or 11.6 per cent hire 76-200 employees, and 15 enterprises or 3.7 per cent hire only 0-5 employees. The categories for number of employees in in-line with the new definition approved on the 11<sup>th</sup> of July 2013, as summarised in Table 6.

TABLE 5. Demographic Information of the Companies

| General Information                  | Frequency | Percentage |
|--------------------------------------|-----------|------------|
| <b>Types of Business</b>             |           |            |
| Manufacturing                        | 60        | 14.9       |
| Service                              | 344       | 85.1       |
| <b>Number of Employees</b>           |           |            |
| 0 - 5                                | 15        | 3.7        |
| 6 - 30                               | 233       | 57.7       |
| 31 - 75                              | 109       | 27.0       |
| 76 - 200                             | 47        | 11.6       |
| > 201                                | 0         | 0          |
| <b>Ownership</b>                     |           |            |
| Malaysian                            | 404       | 100.0      |
| <b>Regional Area</b>                 |           |            |
| South East Asia                      | 294       | 72.8       |
| Asia                                 | 52        | 12.9       |
| America                              | 7         | 1.7        |
| Europe                               | 38        | 9.4        |
| Oceania                              | 10        | 2.5        |
| Middle East                          | 3         | 0.7        |
| <b>Internationalisation Activity</b> |           |            |
| Export                               | 348       | 86.1       |
| Import                               | 37        | 9.2        |
| Licensing                            | 8         | 2.0        |
| Franchising                          | 9         | 2.2        |
| Joint Venture                        | 2         | 0.5        |

Besides that, it is found that 100 per cent of enterprises is Malaysian owned SMEs. Regional area wise, most of the enterprises deal with countries in the South East Asia region, which consists of 294 enterprises or 72.8 per cent; the second highest region that is involved in the Asia region, with 52 enterprises or 12.9 per cent. The rest of the regions like Europe, Oceania and the America and the Middle East make up the rest of the regional areas which Malaysian SMEs have dealt with. Regarding internationalisation activity, the most popular activity among SMEs in Malaysia is export, which recorded 348 enterprises or 86.1 per cent, with import activity coming in second with 37 enterprises or 9.2 per cent. The rest

TABLE 6. Summary of the Approved SME Definitions

| Sector/Size | Manufacturing   | Services and Others  |
|-------------|---|--|
| Micro       | Sales turnover of less than RM300,000 OR full-time employees less than 5                            | Sales turnover of less than RM300,000 OR full-time employees less than 5                           |
| Small       | Sales turnover between RM300,000 and less than RM15 million OR full-time employees between 5 and 75 | Sales turnover between RM300,000 and less than RM3 million OR full-time employees between 5 and 30 |
| Medium      | Sales turnover between RM15 million and RM50 million OR full-time employees between 75 and 200      | Sales turnover between RM3 million and RM20 million OR full-time employees between 30 and 75       |

Source: SME Corporation Malaysia (2013)

are involved in licensing, franchising and joint venture. Nik Ab Halim and Zain (2011) explained that exporting is seen as the first step to enter an international market where it will be the platform for further international expansion using more comprehensive model of entry such as licensing, franchising or joint venture. On top of that, a study conducted by Senik et al. (2014) found that Malaysian SMEs prefer to internationalise predominantly via exporting as exporting is a low commitment mode of entry.

Besides that, a measurement model is developed for the dimension of Internationalisation (INT) and Balanced Scorecard (BSC). This analysis has been made based on the second order analysis. On the whole, the reason for being putting all the constructs together is to check whether all of these constructs are highly correlated, which assures the discriminant validity. In the situation where the measure of connection between two constructs is higher than 0.85, it might be understood that the discriminant validity is not attained (Byrne 2010; Byrne 2016; Zainudin 2012). If the discriminant validity is not attained, then the researcher needs to drop one of those two constructs for further analysis since it is like the mirror of the other (Byrne 2010; Hair et al. 2010, Kline 2011; Zainudin 2012).

Table 7 presents the CFA results reporting altogether for the constructs of Internationalisation (INT) and Balanced Scorecard (BSC). Item CM corresponds to Commitment, whereby CM2 means the second question of Commitment, and by the same manner this explains CM4 and CM5. TR corresponds to Trust and KN corresponds to Knowledge, and the number following the letters means the question number of that particular dimension. As for Balanced Scorecard, there are four perspectives namely, Customer Perspective (CP), Financial Perspective (FP), Learning and Growth Perspective (LGP) and Internal Business Process Perspective (IBP). Again, the number that follows the item means the question number.

Concerning the validity, there are some tests such as content or face validity, convergent validity, construct validity, discriminant validity exists to check the validity of a scale. The content or face validity is gained from the literature review, feedback from experts, pre-testing of the questionnaire and so on. However, the convergent validity, construct validity and discriminant validity can

TABLE 7. The CFA Results

| Construct                  | Item                     | CR*  | AVE** |     |      |      |
|----------------------------|--------------------------|------|-------|-----|------|------|
| Internationalisation (INT) | CM2                      | .904 | .508  |     |      |      |
|                            | CM4                      |      |       |     |      |      |
|                            | CM5                      |      |       |     |      |      |
|                            | TR1                      |      |       |     |      |      |
|                            | TR2                      |      |       |     |      |      |
|                            | TR4                      |      |       |     |      |      |
|                            | KN1                      |      |       |     |      |      |
|                            | KN2                      |      |       |     |      |      |
|                            | KN3                      |      |       |     |      |      |
|                            | KN4                      |      |       |     |      |      |
|                            | Balanced Scorecard (BSC) |      |       | CP5 | .833 | .515 |
|                            |                          |      |       | CP4 |      |      |
| CP3                        |                          |      |       |     |      |      |
| CP2                        |                          |      |       |     |      |      |
| CP1                        |                          |      |       |     |      |      |
| FP4                        |                          |      |       |     |      |      |
| FP3                        |                          |      |       |     |      |      |
| FP2                        |                          |      |       |     |      |      |
| FP1                        |                          |      |       |     |      |      |
| LGP5                       |                          |      |       |     |      |      |
| LGP4                       |                          |      |       |     |      |      |
| LGP3                       |                          |      |       |     |      |      |
| LGP2                       |                          |      |       |     |      |      |
| LGP1                       |                          |      |       |     |      |      |
| IBP5                       |                          |      |       |     |      |      |
| IBP4                       |                          |      |       |     |      |      |
| IBP3                       |                          |      |       |     |      |      |
| IBP2                       |                          |      |       |     |      |      |
| IBP1                       |                          |      |       |     |      |      |

\*CR = Composite Reliability

\*\*AVE = Average Variance Explained

The values of CR and AVE were calculated based on formulas suggested by Raykov (1997)

be measured from the data analysis. Besides, different reliabilities such as internal reliability, Composite Reliability (CR) and Average Variance Explained (AVE) can also be determined using the data analysis.

Moreover, Zainudin (2012) suggested that before developing the structural model of SEM, the researcher needs to address the issues of unidimensionality, validity and reliability. As per the suggestion, all the unidimensionality, validity and reliability have been achieved within the acceptable range.



At this stage of analysis, the structural model will be presented, which is an inclusive way to measure the relationships among the constructs (Tabachnick & Fidell 2007; Byrne 2010; Byrne 2016). The analysis of the structural model illustrates the relationship between the latent constructs. This study highlights the recursive approach where no particular construct is both a cause and effect of the other. In other words, in a recursive model, paths between constructs in the model proceed only from the antecedents to the consequences and not the other way around (Hair et al. 2010). Hence, before redeeming the structural path analysis, this study tested the measurement model as discussed in the preceding sections. Those were principal to justify whether the model delineates the constructs tolerably. The similarity and likeness between the measurement model and the full-fledged path model are equally and additionally means for delineating the distinctive sorts of the validity of the analysis (Tabachnick & Fidell 2007; Byrne 2010).

For an adequate model fit, the standard set of rules suggest that the cut-off value for CMINDF is 5 and less, CFI should be 0.9 and less as well as the threshold value for RMSEA supposes to be less than 0.08. However, in social science research, these fit indices are impractical and even unrealistic occasionally, since these only offer statistical fitness (Bentler & Chou 1987; Anderson & Gerbing 1988; Byrne 2010; Byrne 2016; Hair et al. 2010). In this regard, the initial full-fledged structural model is shown in Figure 2 and Figure 3. The model depicts all the standardised path coefficients among the latent constructs of the hypothesised conceptual framework.

The structural model or hypothesised model displayed in Figure 2 and Figure 3 are plotted by using AMOS as usual, espousing the Maximum Likelihood (ML) estimation of the collected data where the size of the sample consists of 404 respondents involved in various Small and Medium Enterprises (SMEs) in Malaysia (n = 404). The results of the model are measured via goodness-of-fit indices and reasonableness of parameter estimates. The Squared Multiple Correlations (SMC) of the indicators are being figured and calculated as well. Regarding this, Tabachinick and Fidell (2007) clarified that the SMC is interpreted and translated as the unwavering reliability of the variables in the analysis, and as the extent of the difference in the endogenous variable that is represented by the exogenous variable.

After analysing the demographic and company information, the primary model was run using Structural Equation Modelling (SEM). One of the objectives of this research is to discover whether there is a relationship between Internationalisation and BSC. To observe the relationship, SEM pursues a specific way to process the analysis. The findings on all sorts of independent variables and the balanced scorecard of this study are presented and discussed henceforward. The discussion will seek out whether independent variables carry weight in determining the performance of the SMEs by using balanced scorecard as the measuring tool. However, Table 8 summarises the findings on the hypothesis in this research framework.

Table 8 provides maximum likelihood estimates of hypothesis testing expressing a few parameters. However, the following Table 9 exhibits the standardised regression

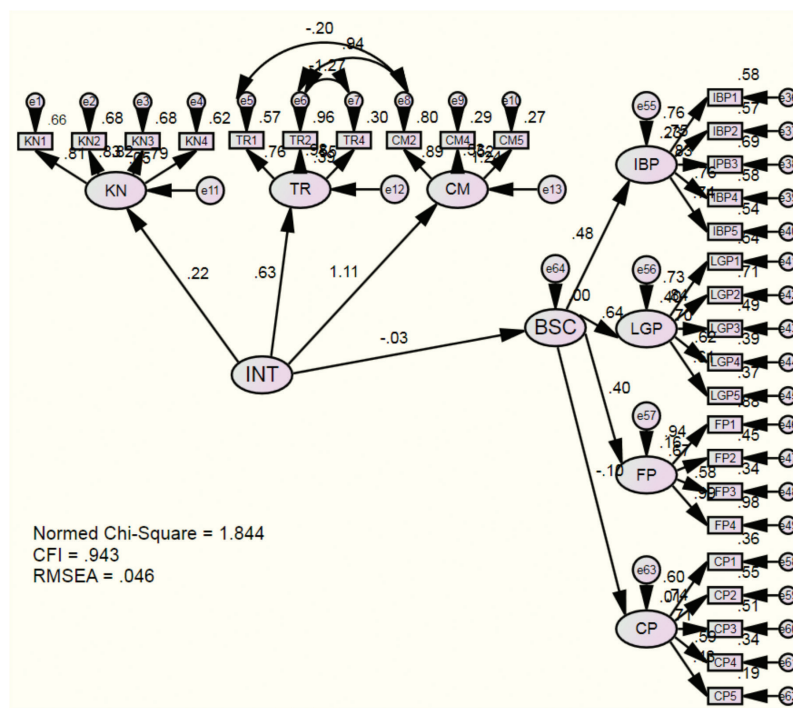


FIGURE 2. Structural Model (Phase-1: Second Order Analysis, Internationalisation as the independent variable)

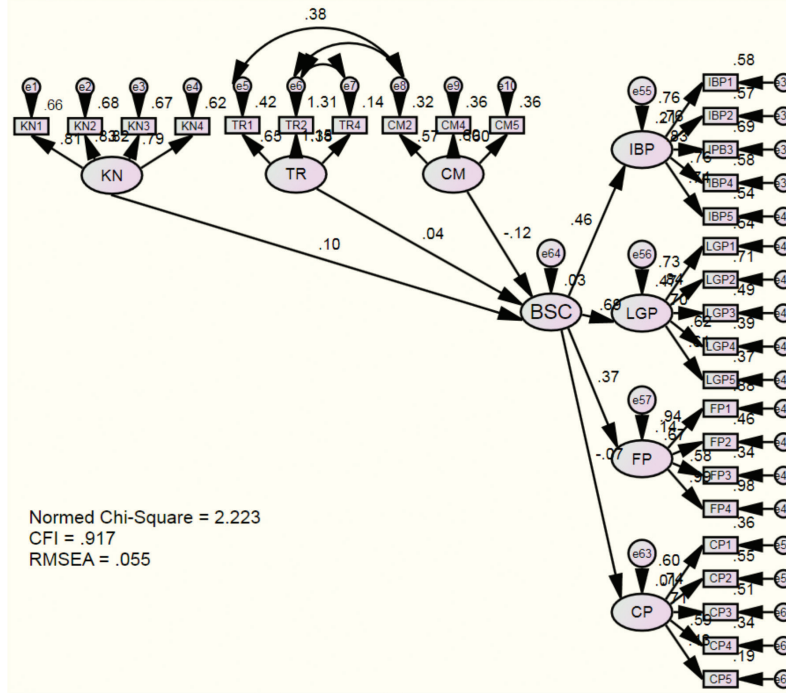


FIGURE 3. Structural Model (Phase-2: Dimensions of internationalisation as independent variables)

TABLE 8. Hypothesis Testing (Maximum Likelihood Estimates)

|     |      |     | Estimate | S.E. | C.R.   | P    |
|-----|------|-----|----------|------|--------|------|
| BSC | <--- | INT | -.062    | .126 | -.492  | .623 |
| BSC | <--- | KN  | .040     | .029 | 1.368  | .171 |
| BSC | <--- | TR  | .015     | .020 | .740   | .459 |
| BSC | <--- | CM  | -.069    | .054 | -1.281 | .200 |

TABLE 9. Standardised Regression Weights (Default model)

| Variable | Relationship | Variable | Estimate |
|----------|--------------|----------|----------|
| BSC      | <---         | INT      | -.034    |
| BSC      | <---         | KN       | .105     |
| BSC      | <---         | TR       | .038     |
| BSC      | <---         | CM       | -.117    |

weights for the default model indicating the relationships of variables with estimated values. The ‘Estimate’ column correctly shows the path coefficient among variables as fit indexes and parameter estimates of the hypothesised model.

To achieve the research objective, one hypothesis with 3 sub-hypotheses were developed to test the relationship between the variables, and with the evidence of Table 8 and Table 9, the decision can be made according to the hypotheses set earlier. The study does not support all the hypotheses as seen in Table 8 where Critical Ratio (C.R.) is -0.492, 1.368, 0.740 and -1.281 and P-value is insignificant (all more than 0.05). This means the

regression weight for Knowledge, Trust, Commitment and overall Internationalisation in the prophecy of BSC is insignificant. The parameter estimates also does not support the model as shown in Table 9 where the path coefficient between overall Internationalisation, Knowledge, Trust and Commitment towards BSC are -0.034, 0.105, 0.038 and -0.117 respectively; these figures which are higher than 0.2 are statistically insignificant, according to Ahmad et al. (2010). The results indicate that Knowledge, Trust, Commitment and overall Internationalisation are insignificantly persuaded on BSC in the SMEs in Malaysia. As compared to Western countries, Malaysia is a relatively young country, and logically most of the SMEs are relatively

new, and business owners have not ventured far into internationalisation, to have an impact on the BSC.

### CONCLUSION

This study is an attempt to assess the internationalisation for the firm performance which is measured using BSC of SMEs in Malaysia. The balanced scorecard is a measure of efficiency, which is indicated by profitability and productivity due to its reflection on how well the firm can translate its demands in the market into products that generate profits. This study attempts to assess the relationship of Knowledge, Trust, Commitment and overall Internationalisation towards BSC as a measuring tool for firm performance for the Malaysian SMEs. The findings of the study may provide some implications in Malaysian SMEs.

An essential purpose of this study is to explore and discover if the well-understood phenomenon of Internationalisation is also workable in the Malaysian perspective, that may affect Internationalisation and BSC literature as a whole (Hennart et al. 2017). This study proved that while increasing firm performance which is measured by BSC by internationalisation may prove beneficial to the western countries, developing countries like Malaysia should consider the potential pitfalls of becoming too focused on internationalisation. In other words, the hypothesis is not supported. In reality, the internationalisation is not accentuated over the practice to reach the firm performance in Malaysia. This Internationalisation is useful to reach the firm performance mostly in larger organisations because they require more strategic Internationalisation to be triumphant over their rivals, which the larger organisations have (Cao et al. 2016). This could also occur due to the degree of involvement in the internationalisation of the SMEs in Malaysia. In most cases, the firm's conditions could affect the degree of their internationalisation (Beier et al. 2016). For instance, most SMEs in Malaysia are relatively new compared to the large companies and therefore are not involved much into internationalisation. Also, being mostly family enterprises, these SMEs in Malaysia are more knowledgeable to perform domestic business rather than getting involved in internationalisation. This can be seen from the evidence that only 13.8 percent of Malaysian SMEs were exporting in 2017 and contributed only 18.6 percent of the country's total export value (Department of Statistics Malaysia 2017).

This study has made a significant contribution to the theory, whereby internationalisation for the performance of SMEs, this study considers the idea from a variety of theories such as the Revised Uppsala Internationalisation Process Model (RUIP-Model) and others, which are very likely to express the enterprises' business process, learning and growth, financial as well as customer perspectives. Besides, there is a dearth of empirical studies previously conducted highlighting the relationship between

internationalisation and BSC of Malaysian SMEs. This systematic assessment of structural relationships among the constructs facilitates a clearer understanding of the nature of the internationalisation of SMEs and how it can further contribute up to firm performance. This study has also contributed to policymakers and regulators where it will help to identify the requirements and solutions for finding out the policy to strengthen the enterprise and maximise productivity and sustainable development. This will increase the efficiency which would be the ultimate step for performance for any business, as to SMEs in Malaysia. Furthermore, this research conveys an understanding to the entrepreneurs regarding the internationalisation items; those that are more essential and play as the remedy swiftly achieve firm performance.

As mentioned, although this study has made a significant contribution to the theory, methodology and policy, however, some limitations need to be taken into account. At the outset, the main limitation of this study was to get the required data. The respondents of this study were the enterprise owners and managers where we are not willing to participate in the survey. Besides, the language barrier was also found as a limitation. So, translating the questionnaire in the local language is recommended for future research. Additionally, 404 questionnaires were taken as the number of respondents, which measured the internationalisation for the firm performance of Malaysian SMEs. This sample size may express an insufficiency regarding whole Malaysia perspective. This limitation took place because of the time constraint and budget limitation. Therefore, a more significant number of respondents are recommended for better findings.

This study involves only the manufacturing and service sectors of SMEs in Malaysia. In order to have a comprehensive overview, other sectors (such as agriculture, construction, mining and quarrying, etc.) need to be evaluated. Besides, only enterprise owners and managers were considered for the current study, whereas views and opinions of other members, like general employees and workers should be taken into consideration. Therefore, if other sectors are considered, and other members of the SMEs are considered as well, these would greatly complement the findings of the study, and to the current body of literature as well.

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Poh Ling Chong  
 Faculty of Economics and Management  
 Universiti Putra Malaysia  
 43400 UPM Serdang Selangor  
 MALAYSIA  
 E-mail: pohlingchong@gmail.com

Tze San Ong\*  
 Department of Accounting and Finance  
 Faculty of Economics and Management  
 Universiti Putra Malaysia  
 43400 UPM Serdang Selangor  
 MALAYSIA  
 E-mail: tzesan@upm.edu.my

Amalina Abdullah  
 Department of Accounting and Finance  
 Faculty of Economics and Management  
 Universiti Putra Malaysia  
 43400 UPM Serdang Selangor  
 MALAYSIA  
 E-mail: amalina@upm.edu.my

Wei Chong Choo  
 Department of Management and Marketing  
 Faculty of Economics and Management  
 Universiti Putra Malaysia  
 43400 UPM Serdang Selangor  
 MALAYSIA  
 E-mail: wcchoo@upm.edu.my

\*Corresponding author