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EXPLORING THE DRIVING FACTORS OF INTERNATIONAL PERFORMANCE: EVIDENCE FROM BUSINESS SERVICE SMEs IN MALAYSIA

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ABSTRACT

This study sought to improve understanding of the factors that drive the international performance (IP) of business service small and medium-sized enterprises (SMEs), particularly from a developing country's perspective. Studying the SME context is key in light of the scarce evidence of SMEs' experience in the literature despite their increasing importance in the provision of services to international clients. Semi-structured interviews underpinned by resource-based theory and dynamic capability view, were conducted with 11 informants representing government agencies, trade associations, and industry members. This qualitative method was employed to analyse the viewpoints of multiple industry stakeholders to enable us to capture the factors that drive IP. The findings revealed a convergence of views among the stakeholders on specific internal and external factors they perceive as essential in driving IP. The internal factors include human capital, entrepreneurial orientation, foreign market

knowledge, relational capital, marketing capability, technological capability, and innovative service offerings, whereas the external factors encompass track record, access to financing, and government facilitation. We elaborated on the identified factors in relation to the supporting theories, thereby enhancing existing knowledge on their relationship with IP.

Keywords: Business service SMEs, international performance, resource-based theory, dynamic capability, government facilitation.

INTRODUCTION

From the standpoint of firms, the idiom “do not put all your eggs in one basket” is indeed relevant, reflecting the need for firms to diversify their markets. Firms, large and small, have little choice but to expand into global markets to ensure growth and survival (Kraus et al., 2017). In this regard, the literature on international performance (IP) has provided an understanding on its importance to firms and countries around the world (Kyophilavong et al., 2017). Existing empirical work has also offered insights on IP’s motivating factors (Haddoud et al., 2019), barriers to internationalisation (Paul et al., 2017) and the reasons behind firms’ scaling-back of internationalisation, termed ‘de-internationalisation’ (Turner, 2012).

Although the IP literature has placed a greater emphasis on firms from the goods sector (Zahler et al., 2014), the service trade is also an important component of international trade (Moen et al., 2004). Services contributed USD42.5 trillion to global trade in 2017 (World Trade Organization [WTO] (WTO, 2019), indicating the growing importance of the service trade, consistent with the shift in the global economy towards being service-based rather than manufacturing-based and agriculture-based (Holmlund et al., 2016). The force of globalisation (Dunford et al., 2016), the tumbling of trade and investment barriers (Huang, 2016), the advent of technology (Antimiani & Costantini, 2013), as well as the improved efficiency of logistics and transport services (Saslavsky & Shepherd, 2014) have greatly facilitated the internationalisation of service firms, including those from developing economies (Radulovich et al., 2018). Given these favourable conditions, the global business service industry has risen as one of the industries recording an exponential growth trajectory (Bello et al., 2016).

As a developing nation, Malaysia relies heavily on international trade to sustain its economy, as evidenced by its trade-to-GDP ratio that consistently surpassed 100 percent from 1979 to 2018 (World Bank, 2019). In 2017, services contributed USD30 billion in international trade for Malaysia, compared with USD18.2 billion in 2005 (WTO, 2019). Malaysia was also ranked 32nd in export and 30th in import of commercial services in 2017, during which 0.7 percent of the world's trade in commercial services was from Malaysia (WTO, 2019). These figures reflect the growing influence of Malaysian service firms in the international trade arena.

Essentially, business service firms are knowledge-intensive and highly reliant on human capital (Reihlen & Apel, 2007), as can be seen in industries such as engineering, architecture, law, accounting, business consulting, and real estate (Matrade, 2019). These firms depend heavily on human capital for producing and delivering services (Georgiadis & Pitelis, 2012; Quader, 2007), creating competitive advantage (Javalgi & Todd, 2011) and ensuring IP (Radulovich et al., 2018). However, business service small- and medium-sized enterprises (SMEs) from emerging economies are frequently associated with being merely low-cost providers of basic services (Radulovich et al., 2018). Moving up the value chain and offering innovative services to international clients is, therefore, the natural progression these firms aspire to achieve to ensure greater firm performance (Radulovich et al., 2018).

A review of the literature suggests that studies investigating the IP of service firms are still lacking (Loungani et al., 2017), especially if SMEs from developing countries are taken into account (Bello et al., 2016). Available studies on services are mostly drawn from the experiences of large firms and firms from advanced countries (Radulovich et al., 2018). This indicates that understanding is still limited on the factors that drive business service SMEs' IP. This is a missed opportunity, considering the increasing importance of service firms from developing countries in world trade (Bello et al., 2016), as well as the differences between services and goods (Samiee, 1999). This paper sought to narrow this chasm by uncovering the factors perceived as pertinent in driving IP for business service SMEs in a developing country, in line with calls from scholars like Bello et al. (2016) and Radulovich et al. (2018).

Business service SMEs from Malaysia were the focus of this study on the basis of their significant contribution to the country's job creation, value-added, and balance of payment (EPU, 2015). We used the

SME definition provided by SME Corporation Malaysia (SME Corp. Malaysia) to delineate service SMEs as service firms that employ less than 75 people and record an annual revenue of less than RM20 million (SME Corp. Malaysia, 2013). This definition is in tandem with the general direction of the literature, which acknowledges the importance of national context in defining SMEs. By examining this understudied cohort, our findings inform service SMEs intending to internationalise, on the factors they should work on to enhance IP, as well as highlight the significance of government support in improving SMEs' IP.

THEORETICAL BACKGROUND

International Performance

Previous studies have indicated the importance of diversifying into international markets to ensure performance (Bianchi et al., 2017). The internationalisation process is seen as gradual and successive in nature (Johanson & Vahlne, 1977; Mohamad, 2016). Scholars are cognisant that greater internationalisation and globalisation may not necessarily bring optimum benefits to countries, as in the context of African countries (Mikail & Abdullah, 2017). The existing literature also recognises that there is no certainty that domestic success will translate into international success (Cavusgil & Zou, 1994). Indeed, IP has been found to be contingent upon factors that reside within and outside firms (Haddoud et al., 2019). Internal factors reflect the resources and capabilities owned by a firm, while external factors refer to the factors outside a firm such as technological advancement and the institutional environment (Chen et al., 2016). However, the effects of resources, capabilities, and government facilitation on IP are still not well understood, particularly from the perspective of service SMEs in developing countries. This is due to scant research on the subject despite the integral role SMEs play in global markets (Ahmad et al., 2021; Covin & Miller, 2014; Lu et al., 2010; Radulovich et al., 2018). The following sub-sections discuss the nexus between resources, dynamic capabilities, government facilitation, and IP.

Resources and International Performance

The link between resources and IP can be explained by the resource-based theory, which underscores the importance of resources and

capabilities in creating a competitive advantage that contributes to IP (Barney, 1991; Barney et al., 2011). Resources can be physical (e.g., machinery and equipment), human (e.g., knowledge and expertise), or organisational (e.g., structures and systems) (Barney, 1991). The resource-based theory provides a theoretical explanation on the link between resources, competitive advantage, and performance (Barney, 1991; Barney et al., 2011). Specifically, the theory assumes a direct link between the resources owned by a firm, such as human capital, and its competitive advantage (Barney, 1991). Ownership of resources has been found to influence IP as a result of increased involvement in overseas markets abroad (Burvill et al., 2018). In a sense, IP could be achieved if firms optimise their internal strengths to seize available opportunities (Barney, 1991; Barney et al., 2011). However, it must be noted that firms internationalise not only because they have the required resources (Al-Aali & Teece, 2014; Pinho & Prange, 2016) but also because of their need for resources (Kaur & Sandhu, 2014). Alleviating risks stemming from external threats may also demand firms to capitalise on their resources and capabilities (Barney, 1991).

Unique resources and capabilities give firms an added advantage over their competitors in foreign markets (Westhead et al., 2001). Nonetheless, differences in resource ownership influence a firm's strategy and performance (Barney et al., 2011), while the level of resource commitment reflects a firm's commitment to internationalisation (Johanson & Vahlne, 2009). Accordingly, Chang et al. (2017) posited that resource requirements differ across firms by their stage of internationalisation. This is in line with Raymond et al.'s (2014) findings that the relationship between strategic capabilities and IP varies between firms in the manufacturing sector and the service sector.

Business service SMEs are highly dependent on a well-educated and skilled workforce (Radulovich et al., 2018) that can provide specialised services through the use of knowledge (Dabić et al., 2019; Reihlen & Apel, 2007). Although the definition of human capital is still an area without common ground (Kianto et al., 2017), scholars broadly agree that human capital reflects the knowledge, skills, abilities, creativity, experiences, commitment, and motivation of individuals in a firm (Bontis, 1998; Meijerink & Bondarouk, 2018). Human capital is vital in ensuring that a business can function and

deliver products and services to its customers (Manolova et al., 2002). However, studies examining the relationship between human capital and IP among service SMEs remain scant (Georgiadis & Pitelis, 2012; Radulovich et al., 2018) with the few available studies showing inconclusive findings of a positive effect (Radulovich et al., 2018; Verma & Jayasimha, 2014) or no effect (Bunz et al., 2017; Raymond et al., 2014). This necessitates more studies to improve the understanding of this relationship, considering that resources such as human capital alone do not necessarily translate into enhanced IP but need to be strategically managed (Ahmad et al., 2020; Zacca & Dayan, 2018) and combined with dynamic capabilities for higher IP (Al-Aali & Teece, 2014; Knight & Liesch, 2016).

Dynamic Capabilities and International Performance

While the possession of unique resources is critical in building and maintaining a competitive advantage that influences IP (Al-Aali & Teece, 2014), it is equally important for SMEs to continuously reconfigure and coordinate their existing resources to achieve more sustainable outcomes (Al-Aali & Teece, 2014; Teece, 2016). To this end, the dynamic capability view (Teece et al., 1997) upholds that dynamic capabilities enable firms to adapt to swiftly changing environments, leverage technologies, increase competitiveness, and deliver innovative services (Mellett et al., 2018; Radicic & Djalilov, 2019; Vargo & Lusch, 2004). What is most important is the ability of firms to be flexible and adaptable in coordinating and reconfiguring their resources and capabilities to sense and seize market opportunities (Teece et al., 1997, 2016). This means that the continuous improvement of firms' internal processes (i.e., technological, organisational, and managerial processes) is key in creating a sustainable competitive advantage within an environment of rapid technological change (Teece et al., 1997).

Nonetheless, caution should be exercised, as not all capabilities are dynamic; in fact, capabilities can be grouped into two categories — dynamic and ordinary (Deng et al., 2018). Ordinary capabilities refer to operational capabilities based on current best practices to meet current needs (Teece, 2018). Efficiency-driven ordinary capabilities are easily replicated and benchmarked by others, such that they may not support the creation of a long-term competitive advantage for firms (Teece, 2018).

Conversely, dynamic capabilities are viewed as higher level activities undertaken by firms to respond to changes in market dynamics (Teece, 2016), which necessitate the realignment and integration of existing resources and capabilities (Deng et al., 2018). These capabilities reside in the top management and managers of the firm (Teece, 2016). Central to dynamic capabilities is its inimitable embeddedness in the organisational processes, routines, and managerial decisions in performing various value-creating functions (Krasnikov & Jayachandran, 2008; Teece, 2016). The embedded nature of dynamic capabilities within organisational practices contributes to the creation of a competitive advantage, as rival firms may find it difficult to replicate (Krasnikov & Jayachandran, 2008). In ascertaining how best to unlock the value of firms' resources, dynamic capabilities are also accumulative, be it in terms of knowledge, skills, or understanding (Murray et al., 2011).

Essentially, dynamic capabilities enable SMEs to spot and pursue openings in international markets, and subsequently make the necessary internal adjustments to seize those market opportunities (Teece, 2018). In fact, the literature supports the importance of dynamic capabilities in creating value (Nenonen et al., 2018) and considers it an important component of service offerings that results in enhanced performance (Vargo & Lusch, 2004). Although scholars have not specified the dimensions of dynamic capabilities (Teece, 2018), the conceptual discussions of Al-Aali and Teece (2014) and Teece (2018) suggest that entrepreneurial orientation, foreign market knowledge, relational capital, marketing capability, technological capability, and innovative service offerings are capabilities that fit well with the dynamic capability concept.

Entrepreneurial orientation refers to the collective intentions and actions of individuals that guide their firm's decision-making activities and internationalisation (Lumpkin & Dess, 1996). Entrepreneurially oriented firms are known as proactive and innovative risk-takers in their overseas ventures abroad (Acosta et al., 2018; Lumpkin & Dess, 1996). This orientation is thus seen as crucial in ensuring successful innovation strategies that contribute to higher performance in a firm (Ndubisi et al., 2015).

Meanwhile, foreign market knowledge represents firms' knowledge about institutional, business, and internationalisation requirements

and environments of international markets (Zhou, 2007). The literature has indicated that foreign market knowledge is an important driver of innovation (Marinova, 2004), new product advantage (Li & Calantone, 1998), internationalisation (Javalgi & Grossman, 2014), and IP (Stoian et al., 2017).

Relational capital refers to a firm's relationships with external parties, such as customers, channels, distributors (Morgan et al., 2006), other firms (Chang et al., 2016), government agencies, and trade associations (Oparaocha, 2015; Zain & Ng, 2006). Relational capital can be internationally-based (Musteen et al., 2014) or domestically-based (Wernerfelt, 1984); regardless, it grants firms access to resources owned by their network partners (Andersson & Sundermeier, 2019) and facilitates the creation of innovative and value-added services (Chatterjee, 2017).

Marketing capability is an important function which links a firm to its clients to generate revenue (Krasnikov & Jayachandran, 2008). This capability takes into account: customer- and competitor-related matters that contribute to the development of innovative products and services (Atuahene-Gima, 2005), globally positioning of firms (Weerawardena et al., 2007), and of resources (Martin et al., 2017), firms responsive to customer needs (Day, 2011).

Technological capability reflects the competence of a firm in using technologies, including scientific knowledge, technological devices, and applications (Gao et al., 2015), that facilitate the creation of end-products and services desired by customers (Afuah, 2002). Based on the abovementioned discussion the current study sought to explore these various dynamic capabilities and their impacts on the IP of business service SMEs.

Government Facilitation and International Performance

Other than resources and capabilities, the role of the government is also crucial in influencing IP (Ahmad et al., 2021; Haddoud & Newbery, 2017). The government is accountable for creating institutional frameworks as well as formulating and implementing policies that impact firms' operating environments (Oparaocha, 2015). Supportive policies by the government have been found to encourage

internationalising firms to innovate (Mahmood & Rufin, 2005) and develop competitive advantages (Luo et al., 2010). Liu and Vrontis (2017) and Peng et al. (2008) are of the view that this institutional aspect is crucial when assessing SMEs from developing economies. This is because the profitability of firms is at risk if the decisions and choices they make run counter to the institutional framework (North, 1991).

Nonetheless, the extent to which SMEs consider government policies in their internationalisation efforts and whether or not internationally inexperienced SMEs benefit from supportive government policies are not well understood. Despite the central role of the government in facilitating the internationalisation of firms, evidence suggests that a firm's early internationalisation is not impacted by government incentives (Kaur & Sandhu, 2014). The study conducted by Volchek et al. (2013) also found no proof of the influence of regulative and cognitive institutional environment roles on internationalising firms. In fact, the role of institutions is assumed to take a back seat and be almost 'invisible' from the perspective of developed economies (Peng et al., 2008). This parallels the view of Hoskisson et al. (2000) that institutional theory is of lesser relevance in studies about emerging economies as these economies become more developed.

In short, in light of the uniqueness of the service industry (Lovelock, 1983) and the importance of the institutional context (Peng et al., 2008), it would be interesting to uncover the specific factors that drive the IP of business service SMEs in emerging countries. Furthermore, there are no standard factors known to influence the IP of service firms, regardless of firms' country of origin (Meyer et al., 1999). Therefore, a qualitative study to uncover the drivers of IP in the context of business service SMEs in a developing country (i.e., Malaysia) may improve the comprehension of SMEs' internationalisation and IP.

METHODOLOGY

This study was qualitative in nature, with the aim of discovering the factors that drive the IP of service SMEs. We considered this an appropriate approach for this study given the limited understanding in the current literature pertaining to the determinants of service SMEs'

IP, particularly in developing countries (Radulovich et al., 2018). The works of Knight and Cavusgil (2004) and Sekaran and Bougie (2009) lend support to our decision to embark on a qualitative study to examine a phenomenon that is still not well understood.

Sample Selection

Since enhancing service SMEs' IP requires the involvement of multiple stakeholders, the current study captured the views of government agencies, trade associations, and industry players on the precursors of IP. The Purposive sampling method was applied to select potential informants based on their capacity, expertise, and experience in the area of internationalisation. The informants of the study were also chosen from the top management of their respective organisations. This permitted a greater comprehension of service SMEs' IP in meeting the research objective. The Request for an interview was sent via email to more than 30 potential informants, of which 11 agreed to be interviewed. The profiles of the samples' is summarised in Table 1.

Table 1

Sample Characteristics

Informant	Institution/ industry	Designation	Gender	Age range
Informant 1	Government	Director	Female	51 – 60
Informant 2	Government	Director	Male	51 – 60
Informant 3	Architecture firm	Chief Executive Officer	Male	51 – 60
Informant 4	Engineering firm	Chief Executive Officer	Male	51 – 60
Informant 5	Industry association	President	Male	61 – 70
Informant 6	Government	Secretary General	Male	41 – 50
Informant 7	Government	Deputy Director	Male	41 – 50
Informant 8	Legal firm	Chairman	Male	51 – 60
Informant 9	Government	Senior Deputy Director	Male	51 – 60
Informant 10	Government	Director	Male	51 – 60
Informant 11	Business consultancy	Chief Executive Officer/ Managing Director	Male	41 – 50

Data Collection and Analysis

Our study used a semi-structured interview to obtain a deeper understanding of the drivers of IP among business service SMEs. The interviews, which lasted between 45 minutes and one hour per informant, were conducted over a period of three months. We held the interviews in English on a one-on-one basis, guided by an interview schedule. During the interview, measures to ensure our correct understanding of the informants' points included cross-checking the highlighted points and recapping the main points before concluding the interview. All interviews were tape-recorded and transcribed after every session, which facilitated our learning of emerging codes and preparations for subsequent interviews.

From the array of analysis methods available for qualitative research, including phenomenology, grounded theory, ethnography, and content analysis (Merriam & Tisdell, 2015) the present study utilised content analysis, in line with the view of Krippendorff (2004). The goal of content analysis in this study was to make inferences on a specific phenomenon based on the interview data, as prescribed by Downe-Wamboldt (1992). To this end, the analysis of the interview data was done manually and iteratively by identifying the codes and themes that emerged. Initially, codes were developed using the actual wordings expressed by the informants. For instance, they highlighted the importance of having the right 'skills', 'experience', 'knowledge', and 'capability' to implement projects abroad. These codes corresponded with the 'human capital' theme. The exercise of grouping and mapping all codes into themes was also conducted manually and iteratively by linking the themes to variables reported in the literature.

FINDINGS

The interview findings revealed a convergence of viewpoints among the government, trade association, and industry informants on the factors that drive IP. The sub-sections that follow discuss the findings in greater detail.

Human Capital as a Crucial Resource

The interviews revealed that human capital is crucial in creating IP, implying that the availability of talent is key for IP. Beyond

recognising the importance of human capital, our study further suggests that human capital needs to be equipped with a high level of technical knowledge and competency to ensure more sustained IP. The significance of human capital for IP was highlighted by all the informants. For instance, Informants 1 and 11 stated that:

“Human capital is an issue for Malaysian firms, but is also key if we want to be successful abroad.” – Informant 1

“The skill sets that we have are very important. Having competent talent is a plus point.” – Informant 11

Specifically, the informants brought up the importance of having human capital with technical know-how and competency, proficiency in the English language, and a willingness to work abroad. These knowledge, skills, and abilities are factors that are personal to the individuals and are vital in carrying out their jobs (Manolova et al., 2002). This finding supports the view of Ahmad et al. (2022) pertaining to the importance of human capital in creating innovative offerings that contribute to better performance. Despite evidence from other studies indicating that human capital has no effect on performance (Bunz et al., 2017; Raymond et al., 2014) and that human capital must be combined with other types of resources and capabilities to achieve optimum outcomes (Ahmad et al., 2020; Zacca & Dayan, 2018), our study suggests that in the context of Malaysian business service SMEs, human capital influences firms' IP.

Our study also found that in implementing projects in Malaysia and abroad, the sampled firms source their talents not only from Malaysia, but also from other countries. Evidently, Malaysian SMEs recognise the importance of having competent talents, regardless of their country of origin. The decision to source personnel from other countries also takes into account the competitive wage structure of talents from other developing countries. The pooling of competent employees from diverse nationalities has helped the informants' firms build a good first impression with their international clients. This has also facilitated their bid for international projects, as mentioned by Informant 4 in the following excerpt below:

“The crux of the thing is the commercial part, whereby we need to put in resumes of people, regardless of where

they are coming from, and this is where our clients will look at whether the people we put in are capable people.”
– Informant 4

Furthermore, we found that having the right number of talents is vital for firms to gain the capacity to successfully manage international biddings and operations. The sampled SMEs affirmed that it is important not only to win international bids, but also to successfully implement the projects. Therefore, it appears that the ability of SMEs to retain their talents and reduce turnover is critical to ensure no setbacks occur in their operations. The necessity to have an adequate number of talents was highlighted by Informant 3, as shown in the following interview excerpt:

“We need to have enough people and resources to look after many things to better compete with the international players.” – Informant 3

In a sense, human capital can be regarded as instrumental yet complex to service SMEs. It is critical in determining the size, scope, and direction of these firms, as well as in creating wealth for them (Brush et al., 2001; Galunic & Anderson, 2000).

Dimensions of Dynamic Capabilities

Entrepreneurial Orientation

The interview revealed that entrepreneurial orientation is pertinent in achieving IP. The findings of the study suggest that SMEs' predisposition towards taking risks as well as their proactive approach to exploring international opportunities are central to sustained IP. This reflects the firms' entrepreneurial orientation, which guides their decision-making activities and processes to sense and seize opportunities as well as to create a competitive advantage that attains better IP. The desire of SMEs to scale up their international operations and move beyond the domestic market motivates them to seek greater opportunities abroad. The informants also indicated that when assessing risks associated with overseas expansion abroad, they need to depart from the prevailing practice of auditing risks based on their domestic operations. SMEs appear to be aware that the risks associated with the domestic market differ from those of international

markets. These firms realise that they have to somewhat tweak their existing risk assessment method or employ a new one to succeed in venturing into international markets. The following interview quotes supportive role of entrepreneurial orientation's IP are as follows:

“Our SMEs have to be entrepreneurial and proactive, and look for opportunities and not wait for the government.”
– Informant 9

“...because in going abroad there will always be risks involved, Malaysian firms need to build the culture of entrepreneurship so that our people are enterprising...”
– Informant 10

Interestingly, the informants were of the view that an entrepreneurial management team is imperative for SMEs to better manage and strategise their internationalisation efforts, as highlighted by Informant 3 in the following interview excerpt below.

“Entrepreneurship among the professionals is important. But what is more important is to have a dedicated team that is entrepreneurial in managing our international business development and operations.” – Informant 3

This finding corresponds with that of Teece (2016), who suggested that the ability to sense and seize market opportunities is considered part of the management's entrepreneurial tasks of a firm, and does not just rest with the firm's founder or owner.

Foreign Market Knowledge

This study found that foreign market knowledge is a contributor to enhanced IP. The finding suggests that a strong understanding of international markets and their systems, host countries' government institutions, potential clients, and current competitors already in the market is vital in strategising operations and capturing opportunities. This result corroborates Zhou's (2007) claim that foreign market knowledge helps firms in their internationalisation endeavour. Based on our analysis, SMEs seem to be aware that international markets differ from the domestic market. They thus acknowledge the importance of getting maximal information about their target markets

to ensure smooth operations and avoid unnecessary risks. As such, SMEs conduct market research and intelligence to gain a greater understanding of their markets. In addition, SMEs also benefit from information and market intelligence shared by government ministries, trade agencies, as well as industry associations about potential markets. This is evidenced in the following script below which suggests the importance of foreign market knowledge:

“We do market intelligence as every country has different requirements, regimes, and structures which require a different business model. We have two business models; either we get the locals and team up with them, or we start our own organically and send somebody to develop the market. For instance, in Singapore, we sent somebody who has a Singapore link; whereas, in Jakarta, we used a different model.” – Informant 8

In addition, the findings indicate that the talents involved in delivering services must be equipped with a good understanding of the target market, as they are the ones who do the planning and service provision for clients. This is in line with the nature of the service industry, which relies highly on human capital in the production and delivery of services (Radulovich et al., 2018). As the delivery and consumption of services can take place simultaneously and may require clients’ participation, an apt understanding of the target markets and potential clients is essential for SMEs in creating innovative services to meet their clients’ needs, as relayed by Informant 7 in the following interview excerpt.

“...our talents who want to penetrate overseas markets, they must understand the markets and work with the international clients.” – Informant 7

Relational Capital

The informants indicated that relational capital is important in their international ventures. The current study found that relational capital with the governments in the home and host countries, as well as with financial institutions, business partners, and clients, are viewed as key in ensuring IP. For instance, relational capital with financial institutions is vital for SMEs in securing financial support for their

international ventures. Meanwhile, their network with governments in the home and host countries provide access to information about the operating environment of the target markets, including in the aspects of the regulatory framework, business requirements, and available incentives and support programmes provided by the government. This is in line with the view of Abdul Ghani (2009) that networking with governments can facilitate international cooperation between countries that opens up doors of opportunity for firms.

Apart from that, networks with Malaysian diaspora in the target markets also facilitate the informants' firms in doing business overseas. These networks help the SMEs in making inroads into the target markets, particularly during the early stages of internationalisation. As the SMEs are relatively small in size, the informants further indicated the importance of leveraging their networks with larger firms, either from Malaysia or from other countries. Deploying their relational capital with larger firms enables the SMEs to focus more on providing niche services and diversifying market risks. The following interview excerpt is evidence on the importance of relational capital in enhancing IP is as follows:

“We need to have strong backing from financial institutions or even the government, then only we can go abroad.” – Informant 3

“We need to identify local players like Malaysian developers in countries that require support services, like engineering services. Then yes, we can go with them, and we bundle up our services and offer it to the clients. But for us to offer it on a stand-alone basis, the clients will not look at us.” – Informant 4

The findings revealed that in some instances, such as in legal, architecture, and engineering services, relational capital with local partners is imperative due to the restrictions imposed by foreign countries on the requirement to use local firms or professionals. Since foreign entry is heavily regulated in this industry, relational capital with local firms and professionals provides an avenue for Malaysian SMEs to participate and make inroads into such markets. Additionally, networks with international development banks and institutions

were found to be key in securing SMEs' international operations, particularly in countries which are less developed and are in a post-war reconstruction mode. Networks with international institutions offer security and safety in terms of operations as well as in honouring contracts. This was noted in the interview with Informant 4, who highlighted the following that:

“Networking with international development banks is important, in terms of the security of the contract.” – Informant 4

Marketing Capability

The interview findings revealed that marketing capability is a core factor in achieving IP. Essentially, the sampled firms view marketing capability as pertinent in creating awareness about the services provided, connecting with potential international clients, and clinching deals. The informants asserted the importance of having human capital who are conversant with conducting marketing efforts in international markets. This is particularly relevant for service firms due to the fact that human capital is involved in the production, marketing, and delivery of services as well as in making connections with clients and generating revenue. This finding supports the view of Krasnikov and Jayachandran (2008) that marketing capability is an important function that links firms to their clients in order to create income streams. Noting that service SMEs can be small with a headcount of fewer than 75 people, the informants also highlighted the significance of engaging in subtle marketing efforts by leveraging their network with other firms, trade associations, as well as existing clients in host countries. This allows SMEs to reach out to their clients while minimising costs. Excerpts from interviews supporting the role of marketing capability in enhancing IP are as follows:

“Conducting a subtle and innovative way of marketing is important if we want to be successful abroad.” – Informant 3

“I think we also need the non-technical people that can go and sell the services, who understand foreign markets, and understand how to brand the products and services.” – Informant 7

Technological Capability

The study's findings indicated that technological capability is a key determinant of IP. As technology is always changing, the informants acknowledged the need to keep abreast of new technologies and upgrade their technological capability on a continuous basis. The informants also underscored the need to leverage online technology, industrial revolution 4.0 (IR4.0), artificial intelligence, and seamless connections between devices and the internet to keep them ahead of their competitors. Utilising a digital platform is considered a must if they want to secure more sustained IP. This finding supports Afuah's (2002) proposition that firms' capability and capacity to use technology contributes to the creation of end products desired by customers. In instances where SMEs do not have a particular technology, they adopt it from other sources and work with international partners to perform technology transfer. According to our informants, it is crucial to retain talents who are capable of utilising and managing acquired technology, as well as to consider the costs of managing the technology. A selected quote from an informant supportive of the role of technological capability's role in creating IP is as follows:

“We have to keep abreast with the advanced technology; we have to adapt and adopt the fourth industrial components, the artificial intelligence.” – Informant 9

Government Facilitation and Internationalisation

The sampled firms pointed out that government facilitation plays a key role in facilitating their internationalisation and improving their IP. Specifically, financial assistance for international market development, market access, and network relationships with foreign governments and firms are the forms of facilitation that assist service SMEs' international market expansion and operations. These findings support the views of Chang et al. (2017), Gorynia et al. (2015), and Wei and Clegg (2015) on the government's role in facilitating the internationalisation of firms. Specific programmes initiated by the government, such as services export funds, partnerships between large and small firms, consortiums, and go-exports, facilitate SMEs in making optimal use of government support in their international ventures. The informants further mentioned that Malaysian missions abroad, which include diplomatic and trade-related missions, are among their sources of support in their operations abroad. This is in

line with the claim of Mohamed Pero and Ahmad Apandi (2018) that the leadership role played by Malaysia in the Association of South East Asian Nations (ASEAN) paves the way for, and supports the internationalisation of Malaysian firms.

In fact, government facilitation is crucial in addressing operational challenges in host countries, such as unfavourable regulations and conditions imposed on Malaysian firms as well as non-honoured payments. In a way, government facilitation via government-to-government negotiation ensures that host countries neither discriminate against nor restrict Malaysian firms from participating in their markets as permitted within the law, existing trade agreements, and mutual recognition arrangements between Malaysia and the respective host countries. The following are some of the quotes from the interviews supporting the role of government facilitation in enhancing IP.

“Our missions abroad, including embassies and trade offices, can help facilitate the entry of our firms in those countries.” – Informant 2

“... and the government to government, they have bilateral and multilateral arrangements.” – Informant 5

Innovative Service Offerings

Based on the interview findings, the informants perceive that innovative service offerings are vital for successful international ventures. They revealed that service offerings that are innovative and offered in complete packages have helped them retain existing clients and attract new ones. Noting that foreign clients prefer multidisciplinary and consolidated offerings, the informants' firms collaborate with other firms, either from Malaysia or abroad, to offer such consolidated services. This finding corroborates the view of Ostrom et al. (2010) on the importance of providing innovative services that are integrated and aligned to market needs. For instance, SMEs in the professional services industry need to provide complete solutions encompassing multidisciplinary practices beyond just architectural or engineering services on a stand-alone basis. The Selected excerpts indicating the significance of innovative service offerings are as follows:

“Coming up with innovative solutions to address any issues or improve conditions is key to winning the market.” – Informant 5

“We have to be innovative. Not necessarily by coming up with new inventions, but we have to make improvements, improvise existing service offerings with the use of technologies.” – Informant 10

In addition, professionals in the industry (e.g., engineers and architects) see it as necessary to use innovative products, materials, and designs. Informant 3 expressed the value of innovation in the construction industry’s supply chain, in light of the dependency of the industry’s professionals on materials produced by manufacturers to offer innovative solutions to clients. This is expected as the construction industry has high forward and backward linkages with other industries (Chen et al., 2017). Professionals thus need to work with manufacturers in coming up with innovative products in line with market demand, as mentioned in the following interview excerpt:

“Our offerings also depend on products and materials produced by manufacturers. That is why it is important for our manufacturers to have the technology and innovation in producing products such as security window with special features.” – Informant 3

Ability to Obtain Financing

In the interviews, the informants indicated that financing is essential to finance and sustain their operations abroad. The ability to obtain financial aids for SMEs is crucial not only in ensuring smooth operations abroad but also in mitigating any risks associated with operating in foreign lands. Hence, financing is key for the SMEs’ survival and growth, in line with the views of Ko and McKelvie (2018) and Fisher et al. (2017). One informant highlighted that access to financing is a major consideration in increasing their commitment to foreign ventures, as such commitment requires financial backing to successfully execute in overseas markets abroad. The interview quotes supportive of the role of financing’s are as follows:

“Financing is vital; that is why a good business plan is essential. We have to put it on paper, do networking, and then go to the bank. They have something tangible to show to the banks and secure the financing.” – Informant 6

“Financing is significant. Without it, you cannot go overseas because the risks are very high. When the risks are high, you need to have the financial buffer in case anything happens.” – Informant 10

Successful Track Record

Finally, the study’s informants expressed that a track record is crucial for them in venturing abroad. In the context of the service industry, this record is of paramount importance as foreign clients normally look at a company’s track record from previous projects. The informants further stated the importance of building a strong domestic track record by implementing projects or offering services to domestic clients. This would enable SMEs to create a company profile consisting of successful projects in the domestic market, and use it as one of their selling points when bidding for projects abroad. In this regard, the track record serves as an observable asset that provides legitimacy, adds credibility, attracts attention, strengthens reputation, and persuades clients, as per the findings of Delmar and Shane (2004), Fisher et al. (2017), and Williams et al. (2017). Consequently, the track record engenders trust and confidence from foreign clients that the Malaysian firms are capable of delivering projects or services as required. The quotes supportive of a track record for IP are as follows:

“...even if we established a consortium to bid overseas projects, the consortium that is being established must have implemented projects in the domestic market which will serve as a good track record.” – Informant 2

“The company needs to build the capability and capacity locally, build the branding and track record, and then only it can be successful abroad.” – Informant 7

Table 1
Sample Characteristics

No.	Informant/ Factor	Stakeholder	Informant 1	Informant 2	Informant 3	Informant 4	Informant 5	Informant 6	Informant 7	Informant 8	Informant 9	Informant 10	Informant 11	Frequency
1.	Human capital	Government (n=6) Industry (n=4) Association (n=1)	✓	✓	-	-	-	✓	✓	-	✓	-	✓	6
2.	Marketing capability	Government (n=6) Industry (n=4) Association (n=1)	-	-	✓	✓	✓	-	-	✓	-	-	✓	6
3.	Government facilitation	Government (n=6) Industry (n=4) Association (n=1)	✓	✓	-	-	-	✓	✓	-	-	-	-	4
4.	Foreign market knowledge	Government (n=6) Industry (n=4) Association (n=1)	✓	✓	-	-	✓	✓	-	-	-	-	-	2
5.	Relational capital	Government (n=6) Industry (n=4) Association (n=1)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	6
6.	Entrepreneurial orientation	Government (n=6) Industry (n=4) Association (n=1)	-	-	✓	✓	✓	-	-	✓	-	-	✓	4
7.	Technological capability	Government (n=6) Industry (n=4) Association (n=1)	✓	✓	-	-	✓	-	-	✓	-	-	✓	4
8.	Financing	Government (n=6) Industry (n=4) Association (n=1)	✓	✓	-	-	✓	✓	✓	-	-	-	✓	4
9.	Innovative service offerings	Government (n=6) Industry (n=4) Association (n=1)	-	-	✓	✓	-	-	-	✓	-	-	✓	4
10.	Track record	Government (n=6) Industry (n=4) Association (n=1)	✓	✓	-	-	✓	✓	✓	✓	✓	✓	✓	6
Summary of Findings														

DISCUSSION

This study has established the critical roles of resources (human capital), dynamic capabilities (entrepreneurial orientation, relational capital, foreign market knowledge, marketing capability, and technological capability), and government facilitation in driving the IP of service SMEs. It also uncovered other key factors that enhance IP, namely innovative service offerings, track record, and financing. While the link between these factors and IP has received support from the literature, our findings provide a more nuanced understanding by capturing these relationships in greater detail.

First, the importance of human capital as a determinant of SMEs' IP has been proven in previous studies, such as that of Meijerink and Bondarouk (2018) and Radulovich et al. (2018). Besides, our study provides a deeper understanding on the aspects of human capital that drive IP, namely talent availability, technical knowledge, competency, English language proficiency, and willingness to work abroad. In addition, this study extends extant knowledge by providing empirical evidence that business service SMEs capitalise on a talent pool from diverse nationalities not only for capacity building purposes, but also to impress their international clients when bidding for international projects.

Second, our findings suggest that an entrepreneurial orientation is vital for achieving IP among service SMEs, in line with other studies like that of Acosta et al. (2018) and Jin and Cho (2018). Beyond merely highlighting the significance of entrepreneurial orientation, this study posits that it is important for the management team of SMEs themselves to be entrepreneurial. This corresponds with Thompson et al.'s (2018) assertion that in small firms, the owners and top managers are deeply engaged and committed to the firm's day-to-day operations and performance. Notably, we uncovered that the sampled SMEs use a different approach to assess the risks associated with expansion abroad compared to their risk assessment methods for domestic operations.

Third, this study found that foreign market knowledge is a main factor in enhancing SMEs' IP, supporting the propositions of Keh et al. (2007) and Zhou (2007). Knowledge and understanding about the host countries and their systems including government institutions,

potential competitors and clients are imperative for SMEs' performance and survival in target markets. Further, we discovered the principal role played by talent in service SMEs; that they must be equipped with a good understanding of the target markets in planning and delivering services to clients. This is of the essence for service SMEs as the delivery and consumption of services may take place simultaneously, often with clients' participation.

Fourth, the findings of this study highlight relational capital as a key factor for service SMEs' higher IP, in consonance with studies by Basah (2019), Radulovich et al. (2018), and Stoian et al. (2017). Specifically, relational capital with governments of the home and host countries, as well as with financial institutions, business partners, and clients, can increase SMEs' IP. Interestingly, we found that the sampled SMEs use their networks with Malaysian diaspora in their target markets to ensure IP. Networks with larger firms, either from their home country or other countries, are also leveraged by SMEs to provide niche services and share market risks. Apart from that, this study disclosed that networks with local partners are necessary for business services in the legal, architecture, and engineering domains, in light of the restrictions and requirements imposed by host countries. Networks with international institutions also play a key role in penetrating less developed countries as well as countries in post-war reconstruction mode.

Fifth, the findings of this study imply that marketing capability is highly pertinent in driving the IP of business service SMEs, which echoes the works of Jin and Cho (2018) and Martin et al. (2017). Marketing capability helps the informant firms in creating awareness about the services provided, connecting with potential clients, and clinching deals. This study extends the current understanding by also uncovering that the sampled SMEs conduct subtle marketing efforts by leveraging their network with larger firms, trade associations, and existing clients in host countries to counter their limitations in resources.

Sixth, this study revealed that technological capability is vital in ensuring sustained IP for internationalising SMEs. This finding is supported by previous studies (Jin & Cho, 2018; Stoian et al., 2017). Central to this finding is the need for SMEs to continuously upgrade their capabilities and capacities concerning the acquisition and

management of new technologies. We noted that the cost of acquiring and managing new technologies is one of the main considerations for SMEs in upgrading their technological capability. In instances where SMEs have limited resources, they could potentially adopt new technologies from other sources or work with international partners to secure technology transfer.

Seventh, this study found that innovative service offerings can drive IP among business service SMEs, validating the results of Bello et al. (2016) and Di Pietro et al. (2018). According to our informants, innovative service offerings are crucial not only for service SMEs, but also in the supply chain, particularly for industries like construction with high forward and backward linkages. We also discovered that the concept of innovative service offerings includes services that are offered in a complete package (consolidated and multidisciplinary), the use of innovative products, materials, and designs in service offerings, and the provision of innovative solutions by engaging clients' participation and catering to clients' needs.

Eighth, this study revealed the pertinent role played by the government in areas such as foreign market access, financial assistance, and networks with foreign governments and foreign firms. Findings on the importance of government facilitation is supported by studies such as Haddoud et al. (2017) and Leonidou et al. (2011). Furthermore, this study suggests that government support is vital in helping SMEs address operational challenges concerning host countries' non-tariff barriers and regulatory requirements.

Ninth, the study found that access to financing is an important consideration for internationalising service SMEs, in line with the work of Yaprak et al. (2018). The findings indicate that easy access to financing permits service SMEs to finance and sustain their operations in international markets as well as address challenges when operating abroad.

Lastly, this study shows clearly that it is necessary for service SMEs to build a good track record if they intend to be successful in their international ventures. The importance of a track record in driving IP is supported by the research of Williams et al. (2017) and Fisher et al. (2017). In particular, this study points out that a track record is vital among SMEs in the construction industry, as international

clients normally look at their prior achievements. In fact, a portfolio of successful projects in both domestic and international markets is used as a selling point by SMEs when they bid for new projects.

THEORETICAL AND MANAGERIAL IMPLICATIONS

First, from the theoretical perspective, this study contributes to a greater comprehension of the drivers of IP in the context of business service SMEs from a developing country. It thereby adds to the wealth of literature on IP that has, thus far, been drawn primarily from the perspectives and experiences of the goods sector and firms from advanced economies (Radulovich et al., 2018; Zahler et al., 2014). Second, this study identifies the specific aspects of human capital that drive the IP of business service SMEs—talent availability, technical knowledge, competency (including in the English language), and willingness to work abroad—have broaden our understanding of human capital in this context. We also highlight the importance of pooled talent from diverse nationalities to strengthen a firm’s capacity, which can be leveraged by SMEs as a selling point when bidding for international projects.

Third, this study extends current understanding on the dynamic capability view by unveiling the operational constructs of dynamic capabilities, namely entrepreneurial orientation, foreign market knowledge, relational capital, marketing capability, and technological capability. With regard to the link between entrepreneurial orientation and IP, this study underscores the importance of an entrepreneurial management team in securing better IP. This finding is novel in comparison to the current emphasis on only the founder or owner of SMEs to be entrepreneurial. We also found that SMEs need to use different approaches in assessing risks for domestic and international expansions. It is likely that SMEs need to tailor distinct risk assessment approaches for domestic and international growth initiatives.

Fourth, our findings add value to foreign market knowledge research by specifying the aspects of such knowledge in terms of host countries, systems, government institutions, potential competitors, and clients. In addition, the informants emphasise the role played by human capital, in light of the simultaneous nature of service delivery and consumption as well as the possibility of clients’ participation

in delivering services. As such, human capital must be equipped with foreign market knowledge in planning and delivering services to clients. Fifth, with regard to networks, this study contributes new knowledge by disclosing the value of networks with diaspora in SMEs' target markets. The role of local partners in industries that are heavily regulated, such as legal, architecture, and engineering services, is also pertinent. Apart from that, this study verifies the importance of networking with international institutions, such as international development banks and organisations within the ambit of the United Nations, to secure projects and payments in less developed and post-war countries.

Sixth, this study highlights the importance of subtle marketing efforts for SMEs by leveraging their networks with larger firms, trade associations, and existing clients in host countries. Seventh, with regard to technological capability, this study provides a more in-depth understanding on the need for SMEs to continuously upgrade their capability and capacity by acquiring new technologies that are feasible in terms of costs as well as employees' readiness to use and manage them. Eighth, with reference to the findings on innovative service offerings, this study has extended current knowledge of the concept by defining the elements of an innovative service: a complete package (consolidated and multidisciplinary); the use of innovative products, materials, and designs in service offering; and the provision of innovative solutions based on clients' needs, which may require clients' participation.

Ninth, the study contributes to a better understanding of the role of the government, including in addressing operational challenges facing SMEs in host countries (e.g., non-tariff barriers and regulatory requirements). Finally, this study enhances theory by suggesting that a good track record is crucial for SMEs to venture abroad. Thus, the creation of a project portfolio consisting of successful projects in domestic and international markets could become a selling point for SMEs to penetrate target markets.

In terms of managerial implications, the findings of this study inform aspiring service SMEs of the importance of human capital as well as dynamic capabilities in creating innovative service offerings that enhance IP. Based on the findings, it is clear that SMEs need to invest in attracting, nurturing, and enhancing suitable talent to achieve better

IP. This includes equipping talent with dynamic capabilities in the aspects of entrepreneurial orientation, foreign market knowledge, relational capital, marketing capability, and technological capability. This study also informs governments of the need to support internationalising SMEs in building their resources and dynamic capabilities, as well as to create conducive business environments for SMEs to internationalise and grow.

LIMITATIONS AND FUTURE RESEARCH DIRECTIONS

This study is not without its limitations. First, the findings have limited generalisability as they are based on a qualitative interview of 11 informants. Consequently, future research could use a quantitative method with a larger sample size to elicit generalisable findings. Second, while the study is cognisant of the key role played by human capital in enhancing IP, investigation into how human capital can be created, maintained, and turned into IP fell outside the scope of this inquiry. Future studies could investigate the mechanism through which human capital improves IP by taking into account factors such as dynamic capabilities and government facilitation. Although salient, it is also possible that the informants of the current study failed to highlight the significance of knowledge-based human resource management in their organisation to ensure that they attract, develop, and retain required talent. Third, in light of the importance of institutional actors in enhancing IP, future research may need to look further into their impact on IP.

CONCLUSION

To conclude, this study has identified and elaborated on the key factors that contribute to the IP of business service SMEs in a developing economy. Despite the frequent association of SMEs with lack of resources and capabilities to internationalise, Malaysian business service SMEs have been found to leverage their internal and external resources to create innovative offerings and enhance IP. Their internal resources include human capital, dynamic capabilities (entrepreneurial orientation, foreign market knowledge, relational capital, marketing capability, and technological capability), and innovative service offerings, while their external resources include government

facilitation, ability to obtain financing, and successful track record. The granular-level findings of this study provide a greater theoretical understanding of the connection between the identified factors and IP. The insights from this research may also inform service SMEs on strategising and managing their international expansion initiatives.

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