UNIVERSITI PUTRA MALAYSIA

IMPACT OF THE DEGREE OF INTERNATIONALIZATION, INNOVATION AND KNOWLEDGE MANAGEMENT SYSTEM ON PERFORMANCE OF MALAYSIAN MULTI NATIONAL COMPANIES

HAMIDEH POURESMAEILI ANARI

GSM 2016 18
IMPACT OF THE DEGREE OF INTERNATIONALIZATION, INNOVATION AND KNOWLEDGE MANAGEMENT SYSTEM ON PERFORMANCE OF MALAYSIAN MULTI NATIONAL COMPANIES

By

HAMIDEH POURESMAEILI ANARI

Thesis Submitted to the Graduate School of Management, Universiti Putra Malaysia, in Fulfilment of the Requirements for the Degree of Doctor of Philosophy

August 2016
All material contained within the thesis, including without limitation text, logos, icons, photographs and all other artwork, is copyright material of Universiti Putra Malaysia unless otherwise stated. Use may be made of any material contained within the thesis for non-commercial purposes from the copyright holder. Commercial use of material may only be made with the express, prior, written permission of Universiti Putra Malaysia.

Copyright © Universiti Putra Malaysia
DEDICATION

I dedicate this thesis to my beloved husband, Abbas

Who always been a positive guiding light in my life and standing by my side on my hardest days, without his constant patience, understanding, support and love the completion of this work would not have been possible.

And

To my beloved parents, Abbas and Esmat

Who dedicated their life to provide me with the secure and loving foundation from which to grow, and have given me all the love, care, support and encouragement to get me who I am now and where I am today.
Abstract of thesis presented to the Senate of Universiti Putra Malaysia in fulfilment of the requirement for the degree of Doctor of Philosophy

IMPACT OF THE DEGREE OF INTERNATIONALIZATION, INNOVATION AND KNOWLEDGE MANAGEMENT SYSTEM ON PERFORMANCE OF MALAYSIAN MULTI NATIONAL COMPANIES

By

HAMIDEH POURSESMAEILI ANARI

August 2016

Chairman: Associate Professor Ng Siew Imm, PhD
Faculty: Graduate School of Management, UPM

What drives successful internationalization and superior performance while firms are attempting to expand their business in global markets? As one of the most imperative questions in international business, many researchers have been trying to find the best answer for that, however, the existing literature shows inconsistency and ambiguity in findings. The present research investigates determinants of firms’ degree of internationalization (DoI) and performance, as well as examining the relationship between DoI and performance in the context of Malaysia. Specially, this study focuses on the mediating role of innovation on DoI-performance relationship, and moderating role of knowledge management system (KMS) toward innovation and performance relationship.

Although, antecedents of DoI and performance, and relationship between these two factors have been widely studied in the literature, but these studies are mainly based on developed countries. Hence, lack of similar studies in Malaysia, as a fast growing economy with increasing rate of outward FDI, underpinning the aim of this study “to achieve a deeper understanding of Malaysian firms’ internationalization and performance”. This research develops five research questions and an integrated theoretical framework from multiple disciplines describing firms’ internationalization and performance implication grounded mainly on Uppsala theory and some other supportive approaches. A quantitative research method was implemented based on the empirical data collected by utilizing a self-administrated questionnaire from 226 Malaysian publicly listed firms having business in foreign markets. The partial least square (PLS) technique was adopted in data analysis process, because it works well when sample size is small, model is complex and formative constructs.
In lights of findings from this study, high DoI and performance in Malaysian internationalizing firms are outcomes of firms’ strong networking capabilities, high entrepreneurial orientation, supportive home-government attitude, and higher entry mode diversity. Further, results show firms’ high DoI can be predicted with higher industry competition intensity, while impact of industry competition intensity on firm performance is not supported in the context of Malaysia. As predicted, there was a positive linear relationship between internationalizing firms’ DoI and performance in the context of Malaysia.

In the process of firms’ internationalization, firms are exposed to different environment with higher competition and different culture, which creates higher learning opportunities, enables them to access different valuable information from various sources, allows them to acquire novel ideas, and hence leads to increase firm’s innovation and eventually firms’ performance. Therefore, based on the findings of this study it appears that innovation mediates relationship between DoI and performance and makes great contribution to the DoI-P literature. The moderating role of KMS towards innovation and performance relationship also was found to be significant, which it makes also considerable contribution to the body of knowledge by testing a new moderating variable toward innovation-performance relationship and also examining it in a new research setting, Malaysia.

The unique and substantial contribution of this study to the existing literature was framing a conceptual model between DoI and performance, while integrating their antecedents into the framework, and most importantly, testing the mediating role of innovation. Majority of prior studies postulated direct and indirect DoI-performance relationship while ignoring the role of intervening variables, particularly mediating variables. Finally, this research found empirical confirmations to support the proposed new multidisciplinary theoretical framework, and advanced the management, entrepreneurship, strategic management, international business, and marketing literature. Research implications and recommendations were also provided.
Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk ijazah Doktor Falsafah

IMPAK TAHAP PENGANTARABANGSAAN, INOVASI DAN SISTEM PENGURUSAN PENGETAHUAN KE ATAS PRESTASI FIRMA MALAYSIA

Oleh

HAMIDEH POURESMAEILI ANARI

Ogos 2016

Pengerusi: Profesor Madya Ng Siew Imm, PhD
Fakulti: Sekolah Pengajian Siswazah Pengurusan, UPM


Walaupun kadar pengantarabangsaan dan prestasi serta hubungan di antara kedua-dua faktor ini telah dikaji secara meluas akan tetapi kebanyakkannya dikaji berasaskan negara-negara maju. Oleh itu, terdapat kekurangan kajian yang serupa di Malaysia yang merupakan sebuah ekonomi yang pesat berkembang dengan peningkatan kadar luar pelaburan langsung asing yang sekaligus dapat menyokong tujuan kajian ini untuk mendapatkan pemahaman yang lebih mendalam terhadap pengantarabangsaan dan prestasi firma-firma di Malaysia.

Kajian ini menghasilkan lima persoalan kajian dan kerangka teori bersepadu daripada pelbagai disiplin yang menerangkan pengantarabangsaan firma dan implikasi prestasi firma yang tertumpu kepada teori Uppsala dan beberapa pendekatan sokongan yang lain. Kaedah penyelidikan kuantitatif telah dilaksanakan berdasarkan data empirical yang telah dikumpul dengan menggunakan borang soal selidik daripada 226 senarai firma awam yang mempunyai perniagaan di pasaran asing. Teknik ‘Partial least square (PLS)’ telah digunakan dalam proses penganalisaan data kerana ia berfungsi dengan baik untuk saiz sampel yang kecil, model yang kompleks dan konstruktur yang formatif.
Kajian ini telah mendapati tingginya kadar pengantarabangsaan dan prestasi di kalangan firma Malaysia adalah hasil daripada rangkaian yang kuat, orientasi keusahawanan yang tinggi, sokongan kerajaan tempatan serta kepelbagaian mod kemasukan. Di samping itu, hasil kajian menunjukkan firma dengan kadar pengantarabangsaan yang tinggi boleh diramal dengan persaingan industri yang hebat manakala kesan persaingan industri yang hebat ke atas prestasi firma adalah tidak disokong di dalam konteks di Malaysia. Seperti yang dijangka, terdapat hubungan positif diantara kadar pengantarabangsaan firma dan prestasi firma di Malaysia.

Di dalam proses pengantarabangsaan firma, firma terdedah kepada persekitaran yang berbeza-beza dengan persaingan yang lebih hebat dan kepelbagaian budaya. Ini dapat mewujudkan peluang pembelajaran dan kebolehupayaan mengakses pelbagai informasi yang berharga daripada pelbagai sumber yang seterusnya membolehkan mereka untuk memperoleh idea-idea baru dan meningkatkan inovasi dan prestasi firma. Oleh itu, berdasarkan hasil kajian ini didapati bahawa inovasi menjadi pengantara kepada hubungan kadar pengantarabangsaan dan prestasi dan ini memberi sumbangan yang besar kepada kesuaseraan kadar pengantarabangsaan dan prestasi. Didapati bahawa peranan sistem pengurusan pengetahuan terhadap hubungan inovasi dan prestasi adalah nyata. Ini juga memberi sumbangan kepada kajian-kajian sedia ada dengan menguji pembolehubah yang baru terhadap hubungan inovasi dan prestasi serta mengujinya di dalam konteks kajian yang baru iaitu di Malaysia.

Sumbangan yang unik daripada kajian ini adalah ia merangka model antara kadar pengantarabangsaan dan prestasi, selain menghubungkan kajian-kajian terdahulu ke dalam rangka kerja ini serta menguji peranan pengantara inovasi. Kebanyakan kajian terdahulu mengandaihkan hubungan pengantarabangsaan dan prestasi adalah secara langsung dan tidak langsung dan mengetepikan peranan pembolehubah. Akhir sekali, kajian ini mendapati pengesahan yang menyokong teori rangka kerja pelbagai disiplin yang baru, kemajuan pengurusan, keusahawanan, pengurusan strategik, perniagaan antarabangsa dan kesuateraan pemasaran. Implikasi dan cadangan kajian juga telah diutarakan.
ACKNOWLEDGEMENTS

All the praises and thanks be to Allah for his mercy and guidance in giving me full strength to complete my doctoral dissertation and my study.

With a great pleasure I would like to acknowledge the support, assistances and contribution made by individuals from the beginning of the fieldwork, providing me access, data and information, to the writing process until the completion of this thesis.

First, I would like to express my gratitude and say a very big thank you to my supervisor Associate Professor Dr. Ng Siew Imm for all the support and encouragement she gave me. Dr. Serene, your guidance and suggestions were amazing and very valuable. Thank you very much for keeping my motivation strong to complete my thesis. I truly admire your sincerity, and the dedication you have towards my work. I must thank you for your critical eye and constructive criticism, your optimistic attitude and encouragement, and understanding of my situation.

I would like to thank the other members of my committee, Professor Dr. Murali Sambasivan and Dr. Raja Nerina Raja Yusof. Their patience during the numerous group discussions and committee meetings is very much appreciated. I would like to gratefully and sincerely thank Professor Murali who without his guidance and constant feedback this PhD would not have been achievable. Professor Murali, your advice, insight, knowledge and support were wonderful and invaluable in this difficult job. I feel very proud and honoured to have carried out my research under your guidance. Dr. Raja Nerina, I really appreciate all your great support and assistance with my doctoral research.

I am extremely grateful to my husband for his support and valuable words of wisdom that helped me stay grooved and complete my study. Abbas, thank you very much for being my backbone throughout my study. I would also like to say a heartfelt thank you to my parents, always believing in me and encouraging me to follow my dreams. Mum and Dad, thank you for helping in whatever way you could during this challenging period. And of course a big thank you to Dr. Mahmoud Danaee and Dr. Jacky Cheah who helped me with the statistical procedures. Undertaking this PhD has been a truly life-changing experience for me and it would not have been possible to do without the support and guidance that I received from many people. I thank all my well-wishers who have directly or indirectly contributed to my research work.
I certify that a Thesis Examination Committee has met on 23 August 2016 to conduct the final examination of Hamideh Pouresmaeili Anari on her Doctor of Philosophy thesis entitled “Impact of the Degree of Internationalization, Innovation, and Knowledge Management System on Performance of Malaysian Multinational Companies” in accordance with the Universities and University Colleges ACT 1971 and the Constitution of the Universiti Putra Malaysia [P.U.(A) 106] 15 March 1998. The Committee recommends that the student be awarded the Doctor of Philosophy.

Members of the Thesis Examination Committee were as follows:

**Noor Azman Ali, PhD**
Associate Professor  
Faculty of Economics and Management  
Universiti Putra Malaysia  
(Chairman)

**Yuhanis Abdul Aziz, PhD**  
Associate Professor  
Faculty of Economics and Management  
Universiti Putra Malaysia  
(Internal Examiner)

**Rosmini Omar, PhD**  
Associate Professor  
UTM International Business School  
Universiti Teknologi Malaysia City Campus  
(Internal Examiner)

**Nigel Driffield, PhD**  
Professor  
Warwick Business School, UK  
(External Examiner)

---

**Professor Dr. M Iqbal Saripan**  
Deputy Vice Chancellor (Academic & International)  
Universiti Putra Malaysia

Date:

On behalf of,  
Graduate School of Management, UPM
This thesis was submitted to the Senate of Universiti Putra Malaysia and has been accepted as fulfilment of the requirement for the degree of Doctor of Philosophy. The members of the Supervisory Committee were as follows:

Ng Siew Imm, PhD  
Associate Professor  
Faculty of Putra Business School  
Universiti Putra Malaysia  
(Chairman)

Murali Sambasivan, PhD  
Professor  
Faculty of Putra Business School  
Universiti Putra Malaysia  
(Member)

Raja Nerina Raja Yusof, PhD  
Lecturer  
Faculty of Putra Business School  
Universiti Putra Malaysia  
(Member)

Professor Dr. M Iqbal Saripan  
Deputy Vice Chancellor (Academic & International)  
Universiti Putra Malaysia

Date :

On behalf of,  
Graduate School of Management, UPM
Declaration by graduate student

I hereby confirm that:

- this thesis is my original work;
- quotations, illustrations and citations have been duly referenced;
- this thesis has not been submitted previously or concurrently for any other degree at any other institutions;
- intellectual property from the thesis and copyright of thesis are fully-owned by Universiti Putra Malaysia, as according to the Universiti Putra Malaysia (Research) Rules 2012;
- written permission must be obtained from supervisor and the office of Deputy Vice-Chancellor (Research and Innovation) before thesis is published (in the form of written, printed or in electronic form) including books, journals, modules, proceedings, popular writings, seminar papers, manuscripts, posters, reports, lecture notes, learning modules or any other materials as stated in the Universiti Putra Malaysia (Research) Rules 2012;
- there is no plagiarism or data falsification/fabrication in the thesis, and scholarly integrity is upheld as according to the Universiti Putra Malaysia (Graduate Studies) Rules 2003 (Revision 2012-2013) and the Universiti Putra Malaysia (Research) Rules 2012. The thesis has undergone plagiarism detection software.

Signature: _______________________ Date: __________________

Name and Matric No.: Hamideh Pouremaeili Anari, GM04946
Declaration by Members of Supervisory Committee

This is to confirm that:
- the research conducted and the writing of this thesis was under our supervision;
- supervision responsibilities as stated in the Universiti Putra Malaysia (Graduate Studies) Rules 2003 (Revision 2012-2013) are adhered to.

Chairman of Supervisory Committee

Signature: 
Name: Associate Professor Dr. Ng Siew Imm
Faculty: Faculty of Economics & Management, UPM

Members of Supervisory Committee

Signature: 
Name: Dr. Raja Nerina Raja Yusof
Faculty: Faculty of Economics & Management, UPM

Signature: 
Name: Prof. Dr. Murali Sambasivan
Faculty: Taylor’s Business School, Taylor’s University
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABSTRACT</td>
<td>i</td>
</tr>
<tr>
<td>ABSTRAK</td>
<td>iii</td>
</tr>
<tr>
<td>ACKNOWLEDGEMENTS</td>
<td>v</td>
</tr>
<tr>
<td>APPROVAL</td>
<td>vi</td>
</tr>
<tr>
<td>DECLARATION</td>
<td>viii</td>
</tr>
<tr>
<td>LIST OF TABLES</td>
<td>xiii</td>
</tr>
<tr>
<td>LIST OF FIGURES</td>
<td>xvi</td>
</tr>
<tr>
<td>LIST OF ABBREVIATIONS</td>
<td>xviii</td>
</tr>
<tr>
<td>CHAPTER</td>
<td></td>
</tr>
<tr>
<td>1 INTRODUCTION</td>
<td></td>
</tr>
<tr>
<td>1.1 Introduction</td>
<td>1</td>
</tr>
<tr>
<td>1.2 Background of the Study</td>
<td>3</td>
</tr>
<tr>
<td>1.3 Issues in Malaysian Internationalized Firms</td>
<td>10</td>
</tr>
<tr>
<td>1.4 Problem Statement and Gaps</td>
<td>14</td>
</tr>
<tr>
<td>1.5 Research Objectives</td>
<td>19</td>
</tr>
<tr>
<td>1.6 Research Questions</td>
<td>19</td>
</tr>
<tr>
<td>1.7 Scope of the Study</td>
<td>20</td>
</tr>
<tr>
<td>1.8 Operational Definitions</td>
<td>20</td>
</tr>
<tr>
<td>1.9 Theoretical Understanding of the Research</td>
<td>21</td>
</tr>
<tr>
<td>1.10 Structure of the Thesis</td>
<td>22</td>
</tr>
<tr>
<td>1.11 Chapter Conclusion</td>
<td>23</td>
</tr>
<tr>
<td>2 LITERATURE REVIEW</td>
<td>24</td>
</tr>
<tr>
<td>2.1 Introduction</td>
<td>24</td>
</tr>
<tr>
<td>2.2 Definition of Key Concepts</td>
<td>25</td>
</tr>
<tr>
<td>2.3 Internationalization Theories</td>
<td>30</td>
</tr>
<tr>
<td>2.3.1 Core Theory of the Study: Uppsala Theory</td>
<td>32</td>
</tr>
<tr>
<td>2.3.2 Research Supportive Theories</td>
<td>38</td>
</tr>
<tr>
<td>2.3.2.1 Network Theory</td>
<td>39</td>
</tr>
<tr>
<td>2.3.2.2 Resource-Based View</td>
<td>42</td>
</tr>
<tr>
<td>2.3.2.3 Eclectic Paradigm</td>
<td>45</td>
</tr>
<tr>
<td>2.3.2.4 Institutional Theory</td>
<td>48</td>
</tr>
<tr>
<td>2.4 Internationalization Drivers and Impediments</td>
<td>52</td>
</tr>
<tr>
<td>2.4.1 Motivational Factors</td>
<td>52</td>
</tr>
<tr>
<td>2.4.2 Impediments to Internationalization</td>
<td>54</td>
</tr>
<tr>
<td>2.5 Internationalization and Performance: Snapshot</td>
<td>57</td>
</tr>
<tr>
<td>2.6 Literature Gaps</td>
<td>63</td>
</tr>
<tr>
<td>2.7 Chapter Conclusion</td>
<td>68</td>
</tr>
<tr>
<td>3 MODEL DEVELOPMENT AND HYPOTHESES</td>
<td>70</td>
</tr>
<tr>
<td>3.1 Introduction</td>
<td>70</td>
</tr>
<tr>
<td>3.2 Antecedents of Degree of Internationalization and Performance</td>
<td>72</td>
</tr>
<tr>
<td>3.2.1 Firm-Specific Characteristics</td>
<td>74</td>
</tr>
<tr>
<td>3.2.1.1 Network Relationships</td>
<td>76</td>
</tr>
</tbody>
</table>
3.2.1.2 Entrepreneurial Orientation 81
3.2.2 Country-Specific Characteristics 86
3.2.3 Industry-Specific Characteristics 93
3.2.4 Entry Mode Diversity 97
3.3 Degree of Internationalization (DoI) and Performance 102
  3.3.1 DoI-P Relationship 103
  3.3.2 Malaysian Firms: DoI-P Relationship 108
  3.3.3 Mediating Role of Innovation in DoI-P Relationship 110
    3.3.3.1 Degree of Internationalization and Innovation 112
    3.3.3.2 Innovation and Firm Performance 115
3.4 Moderating Role of Knowledge Management System 117
3.5 Summary of Formulated Hypotheses of the Study 123
3.6 Chapter Conclusion 124

4 RESEARCH METHODOLOGY 126
  4.1 Introduction 126
  4.2 Research Paradigm 127
  4.3 Research Design 129
  4.4 Research Method 132
  4.5 Population and Sample of the Study 133
    4.5.1 Target Population 134
    4.5.2 Sampling Frame 134
      4.5.2.1 Sampling Design 135
      4.5.2.2 Sample Size 135
      4.5.2.3 Sampling Criteria 138
  4.6 Data Collection Method: Survey 140
    4.6.1 Questionnaire Design 141
    4.6.2 Measurement Model Evaluation: Validity and Reliability 142
      4.6.2.1 Validity Evaluation 142
      4.6.2.2 Reliability Evaluation 143
      4.6.2.3 Pilot Study and Pre-Test 145
  4.7 Constructs’ Measurement 146
    4.7.1 Firm-Specific Characteristics 146
    4.7.2 Country-Specific Characteristics 150
    4.7.3 Industry-Specific Characteristics 151
    4.7.4 Entry Mode Diversity 153
    4.7.5 Firm Innovation 153
    4.7.6 Knowledge Management System 155
    4.7.7 Degree of Internationalization 157
    4.7.8 Firm Performance 160
  4.8 Data Analysis Technique 164
    4.8.1 Structural Equation Modeling (SEM) 165
    4.8.2 Advantages of SEM 166
    4.8.3 Types of SEM 166
    4.8.4 PLS-SEM 168
  4.9 Chapter Conclusion 170
5 DATA ANALYSIS AND RESULTS 171
5.1 Introduction 171
5.2 Formative and Reflective Measurement Models 171
5.3 Responses Analysis of the Survey 176
5.3.1 Response Rate 177
5.3.2 Respondents’ Characteristics 178
5.3.3 Sampled Companies’ Profile 179
5.3.4 Descriptive Statistics and Correlations 180
5.4 The PLS-SEM Analysis: Antecedents of DoI and Performance 182
5.4.1 Measurement Model Results 184
5.4.2 Structural Model Evaluation for Antecedents of DoI and Performance 193
5.4.3 Overall PLS-SEM Results Regarding Antecedents of DoI and Performance 201
5.5 The PLS-SEM Analysis: DoI and Performance Relationship 201
5.5.1 DoI and Firm Performance Direct Relationship 202
5.5.2 Mediating Role of Innovation 203
5.5.3 Moderating Role of Knowledge Management System 207
5.6 Chapter Conclusion 210

6 DISCUSSION, CONCLUSION AND IMPLICATIONS 211
6.1 Introduction 211
6.2 Major Findings and Discussion 211
6.2.1 Analyzing Antecedents’ Determination – Answer to Research Question 1 214
6.2.2 Analyzing Effects of Entry Mode Diversity – Answer to Research Question 2 217
6.2.3 Analyzing DoI & Performance Relation – Answer to Research Questions 3 and 4 218
6.2.4 Analyzing Innovation & Performance Relation – Answer to Research Question 5 220
6.3 Research Contributions 221
6.3.1 Theoretical Contributions 222
6.3.2 Managerial Contributions 224
6.3.3 Contributions to Policymakers 226
6.4 Research Limitations 227
6.5 Direction for Future Studies 228
6.6 Conclusion 230

REFERENCES 231
APPENDICES 290
BIODATA OF STUDENT 302
LIST OF PUBLICATIONS 303
### LIST OF TABLES

<table>
<thead>
<tr>
<th>Table</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1 Outward FDI in Selected Southeast Asian Countries</td>
<td>8</td>
</tr>
<tr>
<td>1.2 Top 18 Malaysian Successful Internationalized Firms in 2012</td>
<td>9</td>
</tr>
<tr>
<td>1.3 Example of Some Malaysian Internationalized Firms with Decreasing Foreign Revenue</td>
<td>11</td>
</tr>
<tr>
<td>1.4 Malaysian Internationalized Firms’ Foreign Sales and Revenue</td>
<td>12</td>
</tr>
<tr>
<td>1.5 Summary of Research Gaps</td>
<td>18</td>
</tr>
<tr>
<td>2.1 Example of Firms’ Internationalization’s Definitions</td>
<td>26</td>
</tr>
<tr>
<td>2.2 Internationalization Reactive and Proactive Motives</td>
<td>53</td>
</tr>
<tr>
<td>2.3 Internationalization Challenges</td>
<td>57</td>
</tr>
<tr>
<td>2.4 Example of Some Intervening Variables in I-P Relationship</td>
<td>62</td>
</tr>
<tr>
<td>3.1 Level of Entry Mode Foreign Market Involvement Scale</td>
<td>98</td>
</tr>
<tr>
<td>3.2 Examples of Knowledge Management Definitions</td>
<td>119</td>
</tr>
<tr>
<td>3.3 Developed Hypotheses in This Study</td>
<td>124</td>
</tr>
<tr>
<td>4.1 Features of Positivism, Constructivism and Realism Views</td>
<td>128</td>
</tr>
<tr>
<td>4.2 Different Types of Research Design</td>
<td>130</td>
</tr>
<tr>
<td>4.3 Differences between Qualitative and Quantitative Methods</td>
<td>133</td>
</tr>
<tr>
<td>4.4 Sampling Criteria</td>
<td>138</td>
</tr>
<tr>
<td>4.5 Measurement Items for Firm’s Network Relationships</td>
<td>148</td>
</tr>
<tr>
<td>4.6 Measurement Items for Firm’s Entrepreneurial Orientation</td>
<td>150</td>
</tr>
<tr>
<td>4.7 Measurement Items for Firm’s Home-Government Attitudes</td>
<td>151</td>
</tr>
<tr>
<td>4.8 Measurement Items for Firm’s Industry Competitive Intensity</td>
<td>152</td>
</tr>
<tr>
<td>4.9 Measurement Item for Firm’s Entry Mode Diversity</td>
<td>153</td>
</tr>
<tr>
<td>4.10 Measurement Items for Firm’s Innovation</td>
<td>155</td>
</tr>
</tbody>
</table>
4.11 Measurement Items for Firm’s Knowledge Management System 156
4.12 Degree of Internationalization Equation 159
4.13 Measurement Items for Firm’s Degree of Internationalization 160
4.14 Subjective Measurement Items for Firm’s Performance 164
4.15 Summary of Measurement Scales Used in the Present Study 164
4.16 PLS-SEM Model Illustrated in Stages and Steps 169

5.1 Differences between Formative and Reflective Indicators 173
5.2 Decision Rules for Assessing Formative and Reflective Measurement 173
5.3 Decision Rules Applied for Constructs Used in the Current Study 174
5.4 CTA_PLS Analysis to Identify Measurement Models 176
5.5 Response of Survey Questionnaire Data Collection 177
5.6 Frequencies and Percentages of Respondents’ Demographic Background 178
5.7 Companies’ Profile 180
5.8 Descriptive Statistics and Correlations Matrix 181
5.9 Variance Inflation Factors and Tolerance Values 182
5.10 Evaluation of PLS-SEM Indices 183
5.11 Discriminant Validity 189
5.12 Summary of Reflective Measurement Model Results 189
5.13 Variance Inflation Factors of Formative Constructs’ Indicators 191
5.14 Formative Constructs’ Outer Weight of Indicators 193
5.15 Path Coefficients Results 195
5.16 Summary of Hypotheses Testing (Antecedents of DoI and Performance) 198
5.17  $R^2$, Effect size ($f^2$), SRMR of the Model  201
5.18  Direct Effects between DoI-Innovation and Innovation-Performance  205
5.19  Indirect Effect between DoI and Performance in the Presence of a Mediator  205
5.20  Path Coefficients and Standard Errors of the Relationships  206
5.21  Structural Model Testing Results, Moderating Role of KMS  208
6.1  Summary of Findings in the Current Study  212
# LIST OF FIGURES

<table>
<thead>
<tr>
<th>Figure</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>The Outline of Chapter One</td>
<td>2</td>
</tr>
<tr>
<td>1.2</td>
<td>Pattern of Outward FDI in Selected Southeast Asian Countries</td>
<td>8</td>
</tr>
<tr>
<td>1.3</td>
<td>Malaysian Responds to Ernst &amp; Young beyond Asia Survey, 2012</td>
<td>13</td>
</tr>
<tr>
<td>1.4</td>
<td>Structure of the Thesis</td>
<td>23</td>
</tr>
<tr>
<td>2.1</td>
<td>The Outline of Chapter Two</td>
<td>25</td>
</tr>
<tr>
<td>2.2</td>
<td>Overview of Uppsala Theory</td>
<td>33</td>
</tr>
<tr>
<td>2.3</td>
<td>The Basic Mechanism of Firms’ Internationalization</td>
<td>35</td>
</tr>
<tr>
<td>2.4</td>
<td>Updated Uppsala Internationalization Process Model</td>
<td>37</td>
</tr>
<tr>
<td>2.5</td>
<td>Internationalization and the Network Approach</td>
<td>40</td>
</tr>
<tr>
<td>2.6</td>
<td>Internationalization and Performance: A Three-Stage Model</td>
<td>60</td>
</tr>
<tr>
<td>3.1</td>
<td>Proposed Theoretical Framework of This Study</td>
<td>71</td>
</tr>
<tr>
<td>3.2</td>
<td>The Outline of Chapter Three</td>
<td>72</td>
</tr>
<tr>
<td>3.3</td>
<td>Hierarchical Model of Choice of Entry Mode Strategy</td>
<td>98</td>
</tr>
<tr>
<td>3.4</td>
<td>Three-Stage Model of Internationalization</td>
<td>106</td>
</tr>
<tr>
<td>4.1</td>
<td>The Outline of Chapter Four</td>
<td>126</td>
</tr>
<tr>
<td>4.2</td>
<td>Research Process of the Study</td>
<td>132</td>
</tr>
<tr>
<td>4.3</td>
<td>Example of PLS Path Model Illustration</td>
<td>169</td>
</tr>
<tr>
<td>5.1</td>
<td>The First Measurement Model for the Antecedents of DoI and Performance</td>
<td>185</td>
</tr>
<tr>
<td>5.2</td>
<td>Measurement Model after Assessment of Indicator Reliability</td>
<td>187</td>
</tr>
<tr>
<td>5.3</td>
<td>Construct-Level Model to Analyze Determinants of DoI and Performance</td>
<td>194</td>
</tr>
<tr>
<td>Section</td>
<td>Title</td>
<td>Page</td>
</tr>
<tr>
<td>---------</td>
<td>----------------------------------------------------------------------</td>
<td>------</td>
</tr>
<tr>
<td>5.4</td>
<td>Empirically Tested Structural Model</td>
<td>195</td>
</tr>
<tr>
<td>5.5</td>
<td>Structural Model Analyzing Direct Relation between DoI and Performance</td>
<td>203</td>
</tr>
<tr>
<td>5.6</td>
<td>Structural Model Containing Innovation as a Mediating Variable</td>
<td>204</td>
</tr>
<tr>
<td>5.7</td>
<td>Structural Model Considering the Moderating Role of KMS</td>
<td>208</td>
</tr>
<tr>
<td>5.8</td>
<td>Moderating Effect of KMS on Innovation and Performance Relationship</td>
<td>209</td>
</tr>
<tr>
<td>6.1</td>
<td>Final Framework of This Study</td>
<td>212</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Description</td>
<td></td>
</tr>
<tr>
<td>--------------</td>
<td>-----------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>ASEM</td>
<td>Asia-Europe Meeting</td>
<td></td>
</tr>
<tr>
<td>ASEAN</td>
<td>Association of South East Asian Nations</td>
<td></td>
</tr>
<tr>
<td>AVE</td>
<td>Average Variance Extracted</td>
<td></td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
<td></td>
</tr>
<tr>
<td>CMV</td>
<td>Common-Method Variance</td>
<td></td>
</tr>
<tr>
<td>CR</td>
<td>Composite Reliability</td>
<td></td>
</tr>
<tr>
<td>CSM</td>
<td>Covariance Structural Modeling</td>
<td></td>
</tr>
<tr>
<td>CTA</td>
<td>Confirmatory Tetrad Analysis</td>
<td></td>
</tr>
<tr>
<td>DOI</td>
<td>Degree of Internationalization</td>
<td></td>
</tr>
<tr>
<td>DV</td>
<td>Dependent Variable</td>
<td></td>
</tr>
<tr>
<td>EO</td>
<td>Entrepreneurial Orientation</td>
<td></td>
</tr>
<tr>
<td>FATA</td>
<td>Foreign Asset to Total Asset</td>
<td></td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
<td></td>
</tr>
<tr>
<td>FGLS</td>
<td>Feasible Generalized Least Square</td>
<td></td>
</tr>
<tr>
<td>FMM</td>
<td>Federation of Malaysian Manufacturers</td>
<td></td>
</tr>
<tr>
<td>FMP</td>
<td>Foreign Market Presence</td>
<td></td>
</tr>
<tr>
<td>FPP</td>
<td>Foreign Production Presence</td>
<td></td>
</tr>
<tr>
<td>FSTS</td>
<td>Foreign Sales to Total Sales</td>
<td></td>
</tr>
<tr>
<td>GATT</td>
<td>General Agreement on Trade and Tariffs</td>
<td></td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
<td></td>
</tr>
<tr>
<td>IB</td>
<td>International Business</td>
<td></td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
<td></td>
</tr>
<tr>
<td>INFDI</td>
<td>Inward Foreign Direct Investment</td>
<td></td>
</tr>
<tr>
<td>Acronym</td>
<td>Definition</td>
<td></td>
</tr>
<tr>
<td>---------</td>
<td>------------</td>
<td></td>
</tr>
<tr>
<td>ISIC</td>
<td>International Standard Industrial Classification</td>
<td></td>
</tr>
<tr>
<td>IV</td>
<td>Independent Variable</td>
<td></td>
</tr>
<tr>
<td>JV</td>
<td>Joint Venture</td>
<td></td>
</tr>
<tr>
<td>KBV</td>
<td>Knowledge-Based View</td>
<td></td>
</tr>
<tr>
<td>KLSE</td>
<td>Kuala Lumpur Stock Exchange</td>
<td></td>
</tr>
<tr>
<td>KMS</td>
<td>Knowledge Management System</td>
<td></td>
</tr>
<tr>
<td>MATRADE</td>
<td>Malaysia External Trade Development Corporation</td>
<td></td>
</tr>
<tr>
<td>MNC</td>
<td>Multinational Corporations</td>
<td></td>
</tr>
<tr>
<td>MNE</td>
<td>Multinational Enterprise</td>
<td></td>
</tr>
<tr>
<td>MSIC</td>
<td>Malaysia Standard Industrial Classification</td>
<td></td>
</tr>
<tr>
<td>MVBV</td>
<td>Market to Book Value Ratio</td>
<td></td>
</tr>
<tr>
<td>NSDC</td>
<td>National Development Council</td>
<td></td>
</tr>
<tr>
<td>OFDI</td>
<td>Outward Foreign Direct Investment</td>
<td></td>
</tr>
<tr>
<td>OCTS</td>
<td>Operational Costs to Total Sales</td>
<td></td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
<td></td>
</tr>
<tr>
<td>OLI</td>
<td>Ownership-Location-Internationalization (Theory)</td>
<td></td>
</tr>
<tr>
<td>OSTS</td>
<td>Overseas Subsidiaries to Total Subsidiaries</td>
<td></td>
</tr>
<tr>
<td>PDIO</td>
<td>Psychic Dispersion of International Operation</td>
<td></td>
</tr>
<tr>
<td>PLS</td>
<td>Partial Least Squares</td>
<td></td>
</tr>
<tr>
<td>RBV</td>
<td>Resource-Based View</td>
<td></td>
</tr>
<tr>
<td>R&amp;D</td>
<td>Research and Development</td>
<td></td>
</tr>
<tr>
<td>ROA</td>
<td>Return on Asset</td>
<td></td>
</tr>
<tr>
<td>ROI</td>
<td>Return on Investment</td>
<td></td>
</tr>
<tr>
<td>ROS</td>
<td>Return on Sales</td>
<td></td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Full Form</td>
<td></td>
</tr>
<tr>
<td>--------------</td>
<td>-----------</td>
<td></td>
</tr>
<tr>
<td>SEM</td>
<td>Structural Equation Model</td>
<td></td>
</tr>
<tr>
<td>SME</td>
<td>Small and Medium-sized Enterprises</td>
<td></td>
</tr>
<tr>
<td>SSM</td>
<td>Suruhanjaya Syarikat Malaysia (Companies Commission of Malaysia)</td>
<td></td>
</tr>
<tr>
<td>TIME</td>
<td>International Experience of Top Managers</td>
<td></td>
</tr>
<tr>
<td>TNC</td>
<td>Transnational Corporations</td>
<td></td>
</tr>
<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
<td></td>
</tr>
<tr>
<td>US</td>
<td>United States (of America)</td>
<td></td>
</tr>
<tr>
<td>VIF</td>
<td>Variance Inflation Factors</td>
<td></td>
</tr>
<tr>
<td>WOS</td>
<td>Wholly Owned Subsidiary</td>
<td></td>
</tr>
<tr>
<td>WTO</td>
<td>World Trade Organization</td>
<td></td>
</tr>
</tbody>
</table>
CHAPTER 1

INTRODUCTION

1.1 Introduction

This thesis reports the internationalization and performance implication of Malaysian internationalized firms. According to the World Bank, Malaysia as a newly industrialized and fast growing economy had 6990.25 US dollars high average income or GDP per capita in 2013, which was 55 percent of the world’s average, and enjoyed a considerable balance of trade with a trade surplus of MYR 9.01 billion in January 2015, as export surpass the import. However, very little is understood about the internationalization and performance of Malaysian internationalized firms, and also factors influencing these variables. This research attempts to address this issue by investigating the determinants of internationalization and performance of Malaysian firms as well as the pattern and relationship between internationalization and performance.

Internationalized firms are backbones to a country’s economic development. In the world during the year 2007, there were 79,000 multinational enterprises with 790,000 foreign subsidiaries, and total sales of US dollar 31 trillion, which had 21 percent increase compared to the year 2006 (UNCTAD, 2008). While as United Nations Conference on Trade and Development (UNCTAD) published (World Investment Report, 2010), these numbers increased in 2010 to 82,000 multinational companies along with 800,000 foreign subsidiaries. Congruent with Alfaro and Chen (2014), since last two decades, sales of multinational companies’ foreign subsidiaries as a percentage of global GDP have experienced more than doubled increase. Since the last decade, exponential enhancement in capital, flows of services and goods, new ideas that represent the most important economic development and MNCs’ international production, and foreign investment and innovative ideas have been known as the main drivers of this phenomenon (Alfaro & Chen, 2014). Accordingly, it is evident that MNCs continue to be an imperative source of global economic development. Hence, understanding how these firms can successfully internationalize and expand their business in global markets is an imperative and vital concept in international business studies.

In fact, firm’s internationalization has been widely researched for almost over four decades (Werner, 2000) and it covers one of the broadest scopes of research today (Ruzzier et al., 2006). Particularly, the relationship between internationalization and firm performance has been the central field of international business (Riahi-Belkaoui, 1996) and the impact of internationalization on performance has been indicted as a “big one question” (Peng, 2004) which researchers have been trying to find a consistent answer for it (Asaaf et al., 2012; Lee, 2013; Manaro et al., 2016). However, despite hundred of studies focusing on this phenomenon, mainly
on firms from developed countries still, there is no common consensus about impacts of internationalization on firm performance, pattern and pace of this relationship.

Therefore, this study attempts to expand the literature and provide a clear understanding of internationalization and performance of firms, particularly in the context of Malaysia. This chapter starts with a discussion of a background to the study and briefly presents the current debate on internationalization and performance, and presents unfolding literature. This brief discussion is expected to provide an overview of the empirical and theoretical issues. It builds the main concept of the present thesis which especially focuses on the performance implication of Malaysian internationalized firms, while determining the antecedents of DoI and firm performance, and analyzing an indirect relationship between firms’ degree of internationalization and performance via the mediating role of innovation.

In this chapter, the research questions will be presented and the boundaries of the exploration will be set. By explaining the context, the study aim and the research objectives will be acquired. These will be clearly illuminated with references to the relevant postulations of the study, followed by research justifications, an introduction to the forthcoming chapters, and structure of the thesis. Figure 1.1 illustrates the outline of chapter one.
1.2 Background of the Study

As globalization arise in the business world, the geographical boundaries’ issues are becoming less significant (Javidan & House, 2002), and the effects of globalization, making the world as a “global village” (e.g., Griffin & Pustay, 2002), increasing interest for breaking the countries’ boundaries and trade barriers can be noticed in the world international business environment. In fact, with growing globalization propensities and increasing tendencies for internationalization, the world has witnessed more integrated and collaborative markets day by day. Therefore, companies are highly encouraged to increase their global presence and being more internationalized as their major strategy for success (Lin et al., 2011).

Recently, rapid changes in the world business environment strongly affected on the internationalization process of companies all over the world (Laanti et al., 2007), and market in many countries in different industries (e.g., consumer product, good and services, etc) become more integrated (Douglas & Craig, 1992). Besides, accelerating globalization has created a new and competitive business environment, driving internationalization of not only MNCs, but also smaller firms (Gjellerup, 2000; Zhang, et al., 2016). Moreover, establishing global international organizations (e.g., World Trade Organizations-WTO, International Monetary Fund-IMF), signing trade agreements between nations (e.g., General Agreement on Trade in Tariffs- GATT), developing supportive trade policies and free trade policies in both developed and developing nations have reduced trade barriers, increased trade liberalization, and ultimately facilitated internationalization (Hill, 2008).

Researchers argued that globalization, as an unstoppable economic process, market integration and technology development (Friedman, 2000), is the results of MNCs’ strategy and global behaviors (Dicken, 1992). While the first wave of internationalization was by firms from developed and western nations, the second wave of foreign investment has taken place by firms from developing countries since last decades, particularly, Asian newly industrialized countries (Pananond, 2007; Wu & Chen, 2014; Ahmad et al., 2015).

Firms attempt to expand their business internationally in order to obtain valuable strategic assets such as management and marketing expertise, unique complementary resources, advanced technologies, and so forth (Makino, Lau & Yeh, 2002). Thus, beyond exploitation of their internal resources, internationalization involves substantial advantages for firms through exploration of valuable knowledge and attainment of critical strategic resources (e.g., Gao, 2004). Companies expand their business into foreign markets in order to overcome the tough domestic competition as well as high cost of doing business, and maintain their growth and success in the industry (Kumar & Subramaniam, 1997).
Nowadays, internationalization and market penetration are the main concerns of companies. The international market offers new insights and opportunities for companies’ growth and success. Yet, moving into new markets is a challenging decision and involves substantial costs, risks as well as benefits. In fact, as the number of internationalized companies increase, the firms’ international competition and success have emerged as a new field of interest among scholars in different disciplines (Ghoshal, 1987). Therefore, a vast body of research focused on relevant topics such as foreign direct investment (Hennart & Park, 1993), foreign location (Dunning 1998), foreign entry mode choice (Kumar & Subramanian, 1997; Luo, 2001), performance implication of entry mode strategies (Woodcock et al, 1994), cultural distance (Kogut & Singh, 1988) and pattern of internationalization (Molero, 1998).

In recent years, globalization, domestic markets’ saturation, firms’ tendency for expansion, developing new products, acquiring economies of scales and endowment of resources have strongly motivated firms to consider internationalization as an imperative part of their growth strategy (Aliouche & Schlentrich, 2011). However, the main goal of firm internationalization is performance maximization (e.g., Buckley & Casson, 1993; Goerzen & Beamish, 2003; Gao et al., 2008). When firms attempt to expand their business into foreign markets, they evaluate whether this strategy is profitable and beneficial for them or not.

In different foreign markets, international firms face a variety of stimuli that affects firms’ operations (e.g., Fortanier & VanTulder, 2009). Besides, possession of unique and critical resources helps them to generate competitive advantages and positively affect their profitability (e.g., Brouthers & Hennart, 2007). Indeed, firms considering internationalization are usually expected to have a reasonable profitability and performance level in their home market, and therefore, these firms by conducting internationalization strategy aim to acquire higher performance (Assaf et al., 2012). Thus, in order to better understand the contribution of this global movement, firms need to know how they are performing in international markets and what are the determinants of a successful internationalization and superior performance.

The relationship between firms’ degree of internationalization (hereinafter referred to as the DoI) and its influences on performance has been intensively studied in different research fields such as international business (IB), international management, strategic management, accounting, finance, economics, and marketing, as the most researched relationship in the literature (Werner, 2002; Ruigrok & Wagner, 2004; Glaum & Oesterle, 2007). Researchers believed that this relationship would be more likely the main issue in future as well (Peng, 2004; Zettinig & Vincze, 2011; Rajiani & Buyong, 2013; Karabag & Berggren, 2014).
Despite increasing firms’ internationalization over the years (Fredriksson, 2003), and a large body of theoretical and empirical researches in this area, yet, the degree to which this internationalization movement is contributing to overall performance of the firm is questionable (Garbe & Richter, 2009; Manaro et al., 2016). As Khoo (2012) mentioned in his research, from 42 empirical researches published during 1971 to 2008, 81 percent of all the studies support the various impact of internationalization on firms’ performance.

However, the impact of DoI on performance varies over the time as literature presents five different models, namely positive, negative, U-shape, inverted U-shape, S-curve, and recently proposed M-curve DoI-P relationship. For instance, some studies found a positive link (e.g., Goerzen & Beamish, 2003; Annavarjula et al., 2005; Sledge, 2007), a negative relationship (e.g., Geringer et al., 2000; Ramsey et al., 2012; Jung et al., 2016), no relationship (e.g., Morck & Yeung, 1991; Singla & George, 2013), a non-linear relationship, such as U-shaped (e.g., Ruigrok & Wagner, 2003; Contractor et al., 2007; Assaf et al., 2012), inverse-U shaped (e.g., Zahra & Garvis, 2000; Qian et al. 2008; Chen et al., 2014), S-curve (Contractor et al., 2003; Lu & Beamish, 2004; Xiao et al., 2013), inverted S-curve (e.g., Ruigrok et al., 2007; Krist, 2009), and also M-curve relationship (e.g., Lee, 2013; Almodóvar, 2012).

Given this conflicting and mixed research findings in the DoI-P link (e.g., Ruigrok et al., 2007; Kirca et al. 2011; Manaro et al., 2016), an important question that raises is why there is such a spread result in the literature. Hence, researchers called for more studies (e.g., Bianchi & Ostale 2006; Assaf et al., 2012; De Jong & van Houten, 2014), particularly considering the impact of moderating and mediating variables (e.g., Hitt et al., 2006; Ruigrok et al., 2007; Loncan & Nique, 2010). This may help to develop better understanding on boundary condition in which the relationship is true and mechanism drives internationalization to performance.

Identifying boundary conditions that inform how internationalization helps to achieve optimal level of performance could be an immense competitive advantage for internationalized firms (Verbeke, Li & Goerzen, 2009). However, this impact is different between firms from developing and developed countries, as the purpose, process, structure and strategies of internationalization in these firms are different. For instance, researchers (e.g., Meyer & Xia, 2012; Filatotchev et al., 2007; Wu & Chen, 2014) emphasize that firms from developing countries lack international experience and do not possess critical firm-specific advantages (e.g., superior technological and managerial resources) as well as same property structure as developed nations’ firms hold, which means operating in more mature home market (as developed markets) provides advantages for firms in order to compete in global markets. Thus, conducting similar studies in developing country like Malaysia is important.
Reviewing the extant internationalization literature reveals that majority of prior studies are based on developed countries’ firms and there is no common agreement about the importance, nature and direction of DoI-P relationship in the context of developing countries (Mihailova & Panibratov, 2012; Musuva et al., 2013). As Sim (2012) argued, explanations of firms’ internationalization are largely based on theories derived from western MNCs. In international business (IB) literature, researchers explained that despite the vast explanations about internationalization of companies from developed countries, yet there is no single theory to explain clearly the internationalization of companies from developing countries (Demirbag & Glaister, 2010; Buckley et al., 2007).

Since last decades, the uniqueness of developing countries’ firms has been the focus of many studies and researchers have been struggling to answer whether these firms are really unique and have different internationalization behaviour compared to developed countries’ firms. To address this question, researches distinctively focused on micro- and macro-level factors. In the first group of these studies, the impact of institutional factors on pattern of developing countries’ firms’ foreign investment has been investigated and the second research stream discusses the determinants of internationalization of these firms from the perspectives of resource-based-view (RBV), network theory, and organisational theory.

In fact, internationalization of developing countries firms, the way they gain essential skills, capabilities, market knowledge and information, utilizing and exploitation of resource have been the focus of many recent researchers (Musuva et al., 2013). However, in accordance with Jormanainen and Koveshnikov (2012), overlooking of some important issues caused ambiguities in theorizing the nature of internationalization of developing countries’ firms. Researchers found that developing countries’ firms, as a latecomers in the international business world take an audacious strategy to quickly establish their reputation (Bonaglia et al., 2007), follow an incremental internationalization process (Pillania, 2009), are highly dependent on their ownership, internalization and locational advantages (Lee & Slater, 2007), tend to heavily invest in R&D activities and building valuable network ties (Yiu et al., 2007), desire to develop new capabilities abroad (Cuervo-Cazurra, 2007), and increase their learning capabilities and knowledge within their network relationships (Elango & Pattnaik, 2007; Zhang, et al., 2016).

Besides, in the case of firms from developed countries, they have higher internal experience compared to developing country’s firms (Amal et al., 2013), possess critical and competitive resources, and have advanced technologies (Thanasuta et al., 2009). Owing to evolution of internationalization process model, they have higher tendency to conduct their R&D activities in foreign markets (Pearce, 1992), while conducting FDI, psychic distance has less importance for these firms (Andersson, 2004), and the key goal for these internationalized firms is to access the country’s abundant resources (Cuervo-Cazurra, 2007).
According to United Nations Conference on Trade and Development (UNCTAD, 2006), MNCs from developed economies mainly have advantages based on critical assets ownership such as reputation and brand name, advanced technologies, and other technological properties, while MNCs from developing economies most likely rely on advantages relevant to production capability, relationships and networks, and their organisational structure. Furthermore, Petrou (2007) contended that both developing and developed market firms are encouraged to utilize internalization and ownership advantages, but with different locational motives, choice, and entries. Particularly, Petrou noted that firms from developing countries have more tendencies to follow their customers from home, while firms from developed countries are more likely to enter foreign markets and seek market opportunities to increase their efficiency.

Kiggundu et al., (1983) argued that the theory developed for Western setting does not apply in developing countries that are under the impact of different environmental factors. Besides, as Ofori-Dankwa and Julian (2013) declared, “conventional wisdom drawn from developed countries” cannot be fully employed in developing countries and in some cases that wisdom “might work in the opposite direction”.

Since last decades, many researchers highlighted the importance of developing market firms. For example, as Contractor (2013) stated, based on UNCTAD’s World Investment Report in the year 2012, hundred largest companies from developing nations accounted for about 56 percent of employees, and 32 percent of assets and sales of all of the hundred largest firms in the world. Malaysia is a noteworthy example of East Asian countries that in spite of its limited resources and capabilities (Mulok & Ainuddin, 2010), has achieved great success in business and industry (Ahmad, 2008; Ahmad et al., 2015). In fact, recently Malaysian firms have shown a noteworthy expansion and development into international markets that resulted in high outflow FDI. Figure 1.2 and Table 1.1 show the trend of Malaysia outward FDI during the period of 2000 to 2013.

As Figure 1.2 and Table 1.1 show, compared to other selected ASEAN countries, after Singapore, the OFDI for Malaysia has been the highest. Also, accountant recently recorded a net OFDI of 16.9 billion RM in first three quarters of the year 2014 which is higher that against 9.4 billion RM in the corresponding period of the year 2013 (Department of statistics, 2014). According to Wong (2012), Malaysian OFDI increased considerably since 2007 and surpassed the country’s FDI inflows due to factors like high labour cost in the home country, the emergence of favorable and attractive business environment in foreign markets (e.g., China, Africa and India), and accessing to larger market size. This statistics indicate high and increasing the propensity of Malaysian firms to invest more in foreign markets. Table 1.2 illustrates list of eighteen Malaysian successful companies in international business for the year 2012, which are listed in the Forbes Global 2000.
Table 1.1 : Outward FDI in Selected Southeast Asian Countries ($ million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Brunei</th>
<th>Cambodia</th>
<th>Indonesia</th>
<th>Malaysia</th>
<th>Philippines</th>
<th>Singapore</th>
<th>Thailand</th>
<th>Timor-Leste</th>
<th>Viet Nam</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>30.000</td>
<td>6.593</td>
<td>150</td>
<td>2026.052</td>
<td>125</td>
<td>6650.270</td>
<td>-19.819</td>
<td>NA</td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>36.037</td>
<td>7.288</td>
<td>125</td>
<td>266.8421</td>
<td>-140</td>
<td>20027.01</td>
<td>427.440</td>
<td>NA</td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>41.575</td>
<td>10.243</td>
<td>3408</td>
<td>2061.315</td>
<td>579</td>
<td>10960.04</td>
<td>71.726</td>
<td>184</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>15.013</td>
<td>6.278</td>
<td>3065</td>
<td>3075.501</td>
<td>794.117</td>
<td>11588.26</td>
<td>529.485</td>
<td>184</td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>17.457</td>
<td>8.382</td>
<td>2726</td>
<td>6021.024</td>
<td>1068.3128</td>
<td>18637.95</td>
<td>967.717</td>
<td>184</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>-6.75</td>
<td>1.095</td>
<td>4675</td>
<td>11313.88</td>
<td>5372.666</td>
<td>36897.15</td>
<td>3003.114</td>
<td>184</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>8.752</td>
<td>18.873</td>
<td>2249</td>
<td>7784.36</td>
<td>1897.1298</td>
<td>26239.00</td>
<td>4172.070</td>
<td>184</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>5.85</td>
<td>20.58</td>
<td>2664.247</td>
<td>13399.07</td>
<td>2712.1665</td>
<td>33377.38</td>
<td>4467.327</td>
<td>184</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>10.050</td>
<td>29.165</td>
<td>7713</td>
<td>15248.88</td>
<td>2349.6411</td>
<td>23491.62</td>
<td>6620.470</td>
<td>184</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>-422</td>
<td>36.20</td>
<td>5422</td>
<td>17114.74</td>
<td>4173.2203</td>
<td>13462.24</td>
<td>12868.80</td>
<td>184</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>-135</td>
<td>42</td>
<td>3676</td>
<td>13600.48</td>
<td>3642.1167</td>
<td>26966.59</td>
<td>6620.297</td>
<td>184</td>
<td></td>
</tr>
</tbody>
</table>

Source: UNCTAD (2013); NA=Not Available
Table 1.2: Top 18 Malaysian Successful Internationalized Firms in 2012

<table>
<thead>
<tr>
<th>Company</th>
<th>Total Sales $bil</th>
<th>Total Profit $bil</th>
<th>Total Assets $bil</th>
<th>Market Value $bil</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maybank</td>
<td>7.2</td>
<td>1.6</td>
<td>141.9</td>
<td>22</td>
</tr>
<tr>
<td>CIMB Group Holdings</td>
<td>5.4</td>
<td>1.3</td>
<td>94.7</td>
<td>18.6</td>
</tr>
<tr>
<td>Sime Darby</td>
<td>13.9</td>
<td>1.2</td>
<td>14</td>
<td>19.2</td>
</tr>
<tr>
<td>Public Bank</td>
<td>3.7</td>
<td>1.1</td>
<td>78.7</td>
<td>15.6</td>
</tr>
<tr>
<td>Genting</td>
<td>6.1</td>
<td>0.9</td>
<td>17.1</td>
<td>12.9</td>
</tr>
<tr>
<td>Axiata Group</td>
<td>5.2</td>
<td>0.7</td>
<td>12.7</td>
<td>14.2</td>
</tr>
<tr>
<td>Tenaga Nasional</td>
<td>10.8</td>
<td>0.2</td>
<td>25</td>
<td>11.4</td>
</tr>
<tr>
<td>Petronas Chemicals</td>
<td>4.6</td>
<td>1</td>
<td>9.6</td>
<td>17.7</td>
</tr>
<tr>
<td>IOI Group</td>
<td>5.3</td>
<td>0.7</td>
<td>6.5</td>
<td>11</td>
</tr>
<tr>
<td>RHB Capital</td>
<td>2.2</td>
<td>0.5</td>
<td>48.1</td>
<td>5.7</td>
</tr>
<tr>
<td>AMMB Holdings</td>
<td>1.9</td>
<td>0.4</td>
<td>35.6</td>
<td>6.1</td>
</tr>
<tr>
<td>Maxis</td>
<td>2.8</td>
<td>0.8</td>
<td>5.6</td>
<td>14.7</td>
</tr>
<tr>
<td>Hong Leong Financial Group</td>
<td>1.7</td>
<td>0.6</td>
<td>51.5</td>
<td>4.1</td>
</tr>
<tr>
<td>MISC</td>
<td>3.9</td>
<td>0.6</td>
<td>12.7</td>
<td>7.5</td>
</tr>
<tr>
<td>YTL</td>
<td>6.1</td>
<td>0.3</td>
<td>16</td>
<td>5.9</td>
</tr>
<tr>
<td>Petronas Gas</td>
<td>1.1</td>
<td>0.5</td>
<td>3.5</td>
<td>10.4</td>
</tr>
<tr>
<td>Kuala Lumpur Kepong</td>
<td>3.4</td>
<td>0.5</td>
<td>3.4</td>
<td>8.1</td>
</tr>
<tr>
<td>Petronas Dagangan</td>
<td>7.7</td>
<td>0.3</td>
<td>2.8</td>
<td>6</td>
</tr>
</tbody>
</table>


Internationalized firms from Malaysia, as a fast growing economy, have shown a noteworthy expansion and development into international markets that resulted in high outflow FDI. In order to successfully continue its positive trend in international markets and acquiring sustainable competitive advantages in the global marketplace, it is highly required for firms to get a clear understanding of what are the motivating and impediments factors while expanding their business abroad and how their performance would be affected by the internationalization.

Thus, according to the abovementioned discussion, the present study aims to expand the degree of internationalization and performance (DoI-P) literature by conducting a research in a developing country, as called by Mihailova and Panibratov (2012), particularly Malaysia, and testing the determinants as well as performance implication of internationalized firms. In the next section some issues relating to the Malaysian internationalized firms will be explained, followed by the theoretical debate and research gaps on internationalization and performance literature.

1.3 Issues in Malaysian Internationalized Firms

Many firms from developing economies, like Malaysia, struggle with locational disadvantages, the liability of foreignness, newness and smallness, that enhance the risk of internationalization and prevent firms from conducting FDI and high resource commitment into foreign countries (e.g., Ahmed et al., 2002; Pananond, 2007). Due to lack of critical resource availability and low international experience, many Malaysian firms have higher tendency to concentrate on the regional international activities, where there are higher similarity in terms of language, culture, ethnic groups as well as business environment, and geographical proximity (Sim, 2006; Reiner et al., 2008; Ahmad & Kintchen, 2008).

Since other Asian economies become serious cost-competitive rivals for Malaysia, and Malaysia’s severe domestic competition continues to cut down the profits, companies need to restructure their strategies to focus more on international context (Rajiani & Buyong, 2013). Therefore, as they increase their international involvement, they need to find out how they can have better performance in an international context. As it is mentioned above, although many Malaysian firms (e.g., Petronas, IOI Corporation, Sime Darby, Genting Group, Berjaya Corporation, Sapura Group and Media Prima) have entered foreign markets and have had successful internationalization, but still many companies have lower degree of involvement in foreign markets or despite the high level of internationalization they have lower profitability from their overseas business.

In fact, not all Malaysian internationalized companies are successful. There is some evidence showing that not all firms are doing well in their internationalization. To show explicit evidence for unsuccessful internationalization efforts of some Malaysian firms, a preliminary study from a small sample of 25 Malaysian internationalized companies was conducted. These firms were randomly selected from the Bursa Malaysia list. The main criteria to select small the sample for the preliminary study was based on firms’ increasing internationalization and by using secondary data (firms’ geographical segments’ revenue and financial indicators), their foreign revenue and performance (accounting-based data) were calculated.

These secondary data were extracted from the Capital IQ website\(^2\) for period of the 2011 to 2013, to control the impacts of the recent global financial crisis on companies’ international sales. The US global economic crisis started at the end of the year 2007 and had negatively influenced on many companies as well as Malaysian firms until end of 2010 (UNIDO, 2011). Thus, data from 2011 was used as it was free from the global economic crisis impact.

\(^2\)https://www.capitaliq.com
The results of a preliminary study on the small sampled internationalized firms reveal that indeed internationalization not necessarily increases over time. Some firms faced challenges which caused them to de-internationalize, divest or exit from a particular project or a foreign market. A small sample of 15 companies’ with decreasing internationalization in the period of 2011 to 2013 is presented in Table 1.3. As Table 1.3 shows, the percentage of foreign revenue of these companies decreased continuously from the year 2011 to 2013. This reflects unsuccessful internationalization that could be due to the negative impacts of some factors on firm internationalization (e.g., country risk, political and economical risks, market condition, and lack of required resource) which lead to decline their involvement and commitment into foreign business.

Table 1.3: Example of Some Malaysian Internationalized Firms with Decreasing Foreign Revenue % (2011-2013)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>United U-LI Corp. Bhd</td>
<td>30.6</td>
<td>26.6</td>
<td>21.7</td>
</tr>
<tr>
<td>Weida (M) Bhd</td>
<td>6.4</td>
<td>2.7</td>
<td>1.3</td>
</tr>
<tr>
<td>Tien Wah Press Holding Bhd</td>
<td>89.1</td>
<td>83.4</td>
<td>80.7</td>
</tr>
<tr>
<td>TA Global Bhd</td>
<td>66.3</td>
<td>63.4</td>
<td>60</td>
</tr>
<tr>
<td>Symphony House Bhd</td>
<td>56.1</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Muda Holding Bhd</td>
<td>28.1</td>
<td>24.7</td>
<td>16.3</td>
</tr>
<tr>
<td>Apex Equity Holding Bhd</td>
<td>4.5</td>
<td>3.3</td>
<td>1.6</td>
</tr>
<tr>
<td>Faber Group Bhd</td>
<td>15.6</td>
<td>4.1</td>
<td>1.3</td>
</tr>
<tr>
<td>Kumpulan Jetson Bhd</td>
<td>15.4</td>
<td>14.8</td>
<td>11.6</td>
</tr>
<tr>
<td>Pestech International Bhd</td>
<td>4.3</td>
<td>3.2</td>
<td>1.3</td>
</tr>
<tr>
<td>Seacera Group Bhd</td>
<td>26.8</td>
<td>26.5</td>
<td>23.1</td>
</tr>
<tr>
<td>Tatt Giap Group Bhd</td>
<td>11.2</td>
<td>10.8</td>
<td>4.9</td>
</tr>
<tr>
<td>Chemical Co. of Malaysia Bhd</td>
<td>21.7</td>
<td>18</td>
<td>13.8</td>
</tr>
<tr>
<td>Choo BeeMetal Industries Bhd</td>
<td>10.7</td>
<td>8.4</td>
<td>5.6</td>
</tr>
<tr>
<td>Country Heights Holding Bhd</td>
<td>5.1</td>
<td>3.4</td>
<td>2.7</td>
</tr>
</tbody>
</table>

Source: Developed for this Research

Besides, the results of the preliminary study show that despite increasing internationalization, some firms had decreasing performance for the period of 2011 to 2013. This could be because there are some other factors that affect the performance of firms. Table 1.4 illustrates an example of some companies with decreasing foreign sales shown by their financial performance indicators\(^3\). Overall, from the findings of this preliminary study, it is evident that internationalization and its performance implication are more complex than what has been assumed by prior studies.

\(^3\)The most commonly used operationalization of the performance measures in the literature are ROA, ROS and ROE.
Table 1.4: Malaysian Internationalized Firms’ Foreign Sales and Revenue %, (2011-2013)

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Year</th>
<th>ROA (%)</th>
<th>ROE (%)</th>
<th>ROS (%)</th>
<th>Foreign Revenue (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tek Seng Holding Bhd</td>
<td>2011</td>
<td>3.7</td>
<td>5.9</td>
<td>3.95</td>
<td>39.3</td>
</tr>
<tr>
<td></td>
<td>2012</td>
<td>3</td>
<td>4.1</td>
<td>3.53</td>
<td>42.7</td>
</tr>
<tr>
<td></td>
<td>2013</td>
<td>2.9</td>
<td>1.3</td>
<td>1.7</td>
<td>43.9</td>
</tr>
<tr>
<td>Guan Chong Bhd</td>
<td>2011</td>
<td>15.2</td>
<td>54.1</td>
<td>8.81</td>
<td>63.3</td>
</tr>
<tr>
<td></td>
<td>2012</td>
<td>9.1</td>
<td>39.1</td>
<td>8.18</td>
<td>73.5</td>
</tr>
<tr>
<td></td>
<td>2013</td>
<td>2.1</td>
<td>1.3</td>
<td>0.23</td>
<td>77.2</td>
</tr>
<tr>
<td>Bumi Armada Bhd*</td>
<td>2011</td>
<td>5.2</td>
<td>16.5</td>
<td>23.29</td>
<td>64.8</td>
</tr>
<tr>
<td></td>
<td>2012</td>
<td>4.6</td>
<td>10.6</td>
<td>23.25</td>
<td>82.5</td>
</tr>
<tr>
<td></td>
<td>2013</td>
<td>4.2</td>
<td>10.7</td>
<td>20.80</td>
<td>86.4</td>
</tr>
<tr>
<td>Zhulian Corporate Bhd**</td>
<td>2011</td>
<td>11.6</td>
<td>25.6</td>
<td>26.65</td>
<td>51.9</td>
</tr>
<tr>
<td></td>
<td>2012</td>
<td>11.5</td>
<td>27.7</td>
<td>25.99</td>
<td>58.2</td>
</tr>
<tr>
<td></td>
<td>2013</td>
<td>10.4</td>
<td>25.3</td>
<td>29</td>
<td>62.5</td>
</tr>
</tbody>
</table>

* For this company ROE very slightly increased in 2013.
** For this company ROS slightly increase in 2013.

Moreover, the findings of a survey conducted by the Economist Intelligence Unit in March and April 2012 show that transferring international revenues into profits is a critical challenge for Malaysian internationalized companies. This survey explains that despite the great international activities of Malaysian companies compared to their other Asian counterparts, they have been less successful in order to transfer their revenue to profit or performance. The survey shows that in spite of the higher amount of firms exporting and foreign operation, very few percentage of their revenue comes from abroad. Figure 1.3 shows the results of the Economist Intelligence Unit’s survey, particularly for Malaysian firms.

---

4Beyond Asia: strategies to support the quest for growth / Malaysia highlights: A survey of 617 business executives based in East and Southeast Asia.
The above-highlighted issues of Malaysian internationalized firms in terms of reduced foreign revenue and reduced foreign returns report that Malaysian firms were less successful in transferring foreign revenue to profit. A case study depicting an unsuccessful Malaysian internationalized firm gives further insights into factor potentially explaining internationalization success. As reported in an Agence France-Presse story by Dow Jones Daily Bankruptcy Review, Malaysian conglomerate The Lion Group experienced an unsuccessful multi-billion-dollar joint venture ($9.8 billion project) with Vietnam’s scandal-hit shipbuilder Vinashin in 2007. As stated by Vietnamese official, the project’s investment license had been canceled due to the incapability of Malaysian parties to fulfill their commitments.

On the other hand, the Malaysian investor, The Lion Group, stated that the project cancellation is because of the management and financial issues. They declared that firm required certain circumstance including adequate import tariffs protection for Vietnamese Government for such a big investment, but this requirement was met by the firm, which led to stop the project. Thus, from this case, it seems to suggest that certain conditions such as management practice issues, host-country rules and regulation as well as lack of financial resources are some of important factors that lead to internationalization performance and lack of these factors may cause failed internationalization attempts. Additionally, another unsuccessful internationalization attempt of Malaysian firms can be exemplified based on the case of export failure in the national car (Proton) joint venture project. According to Athukorala (2014), Proton’s attempt to expand its exporting activities failed due to the lack of commitment on the part of its joint-venture partner, Mitsubishi. Hence, the firm remained as a high-cost producer and its

---

survival was dependent on the home-government supports (e.g., tax concessions and tariff protection). Therefore, this case highlights the important role of home-government supportive attitude, rules and regulations in firms’ internationalization attempts.

Moreover, as documented in the Eleventh Malaysian Plan, 2016-2020, one of the important issue affected Malaysian manufacturing sector during 2011-2015 was the lack of competitiveness and innovation. Based on the Eleventh Malaysian Plan, the majority of Malaysian manufacturers have low critical capabilities to be innovative due to lack of essential knowledge and market information, insufficient resources, and resistance to market changes. Besides, the results of national survey of innovation 2012 (NSI-6) indicate that only 38% of Malaysian manufacturing firms are innovative and companies are typically adapters rather than discovering new inventions, being innovators and developing new products or technologies (Study on Technology Innovation Capabilities of Malaysia-Owned Companies, 2012). Nowadays, due to the dynamic business environment, increasing competitive pressure in global markets, shorter product life cycles and also easiness of imitation companies to survive and succeed in their business need to be innovative as one the major factors which contribute to firms’ sustainability. However, evidence indicates the lack of innovation among Malaysian firms, particularly manufacturing firms. Thus, conducting a study to verify if innovation is related to firms’ performance in the context of Malaysia is relevant.

1.4 Problem Statement and Gaps

A key aim of IB researchers is to explore and identify why some of the internationalized companies are successful and others fail while doing business in foreign markets (Vilas-Boas, 2009). Indeed, with regards to the performance implication of internationalization, as it is evident in the context of Malaysia and based on the above-mentioned evidence, not all Malaysian internationalized companies are performing well. Some firms face challenges which caused them to de-internationalize, divest or exit from a particular project or a foreign market.

The literature review also reveals some failed internationalization attempts (Alexander, Quinn & Cairns, 2002; Wrigley & Currah, 2003; Bianchi & Ostale, 2006). Many researchers in the IB and strategic management literature have focused on internationalization and its performance implications in order to offer better clarification regarding how internationalized firms can sustain and succeed in international business markets (Gomes & Ramaswamy, 1999; Malhotra et al, 2003; Hennart, 2007; Kumarasinghe & Hoshino, 2009). Deeper analysis of the international business literature indicates that while internationalization may bring a number of important advantages (e.g., organizational learning, economies of scale, etc.), it does not always result in improved performance (Grant, 1987; Grant, Jamine, & Thomas, 1988; Kim, Hwang & Burgers, 1989; Hitt, Hoskisson, & Kim, 1997; Delios & Beamish, 1999). For instance, some studies
have reported negative impacts of internationalization on performance (e.g., Ramsey et al., 2012; Jung et al., 2016), while in other cases the impact was not significant (e.g., Sambharya, 1995; Singla & George, 2013).

Accordingly, the literature so far provides knowledge about internationalization motives, strategies, dimensions and internationalization’s costs and benefits, and yet, there are some gaps in the literature. In this study, reviewing the internationalization literature reveals four gaps, which are briefly explained in the following paragraphs.

The first research gap is the lack of research looking at impacts of firm-characteristics, country-characteristics, and industry characteristics as antecedents of DoI and performance, simultaneously in the same framework as is proposed by some scholars (e.g., Davis, et al., 2000; Hitt et al., 2006). Recently, Lee et al., (2014) highlighted the importance of integrating all these factors concurrently while investigating DoI and performance determinants. To address this gap, the present study attempts to integrate some important factors under these three classifications (firm, country, industry characteristics), which their effects on DoI and performance have not been tested yet or have been rarely studied.

Many variables have been identified to impact on the firm DoI such as corporate governance, R&D intensity, ownership advantages, firms production, skills & capabilities, management characteristics, and firm size, (e.g., Root, 1994; Reuber & Fischer, 1997; Prashantham, 2004; Wang et al., 2008; Lee & Park, 2006). Besides, as Trapczynki (2013) noted, while performance has been known as the key factors in IB research, but scholars argued that there is no common consensus to explain the key determinants of internationalized firms’ performance (Kotabe et al., 2002), and a satisfactory insight about antecedents of internationalized companies’ performance is still lacking (Matysiak & Bausch, 2012). Therefore, to address this gap, this research attempts to integrate critical factors from firm, country and industry levels, which their effects have not been studied yet.

Respecting the firm-level factors, even there is a wide body of literature considering the effects of various firm factors (e.g., size, age, experience, financial resources, know-how, technology, brand and reputation), but there is a lack of research investigating the effects of network relationships on firms’ DoI (Werner, 2002). Some scholars (e.g, Gulati, Nohria, & Zaheer, 2000; Kenny & Fahy, 2011) stress that there is an urgent need for empirical research to explore the role of firms’ network of relationships on internationalized firm performance. Besides, although the effects of entrepreneurial orientation on firms’ internationalization and performance have been examined separately in prior studies but, its’ impact on DoI and performance simultaneously in the same framework have not been tested yet in the context of Malaysian internationalized firms.
With regards to the country characteristics, the effect of home-country factors particularly impacts of home-government attitude is considered in the current study. In fact, the majority of studies in the extant literature focus on the role of host government attitude, and the effect of home government attitude has not been sufficiently addressed (Wu & Chen, 2014). Hence, this study investigates the impacts of home-government attitude on internationalized firms’ DoI and performance simultaneously in a same framework in the context of Malaysia.

Concerning the industry characteristics, researchers argued that industry factors has been ignored or too generalized in the literature (e.g., Caves, 1996; Makhija et al., 1997), and there is considerable limitation about the impact of industry characteristics on firm’s degree of internationalization (e.g., Grøgaard, Gioia & Benito, 2013), particularly effects of industry competitive intensity (e.g., Karabag & Berggren, 2014; O’Cass & Weerawardena, 2010). Researchers highlighted the importance of industry characteristics on firms’ internationalization and performance (e.g., Senik et al., 2010; Porter, 2008).

The second gap is related to the role of internationalization dimensions and strategies (e.g., entry mode). Reviewing the extant literature shows the lack of research studying the effects of entry mode diversity on DoI and performance. Noteworthy, foreign entry mode strategy represents the third most important researched area in the IB and international management literature after FDI and internationalization (Werner, 2002; Canabal & White, 2008). Despite the vast body of literature investigating the entry modes’ antecedents and outcomes, the effect of firm’s entry mode diversity has been largely neglected in the literature (Petersen & Welch, 2002). Given the fact that different entry mode conveys various learning experience for internationalized firms (Hashai et al., 2010), the current research evaluates the impact of entry mode diversity on DoI and performance in the context of Malaysian internationalized firms.

The third gap refers to the conflicting findings on DoI-P relationships and highlights necessity of considering indirect DoI-P relationship. It can be seen from the literature that despite hundred of studies on this domain, based on different theories and insights, there is still lack of consensus among scholars on the nature of DoI and performance relationship and the results are mixed and inconsistent (Hitt et al., 1997; Thomas & Eden, 2004; Hennart, 2007). Researchers found a linear positive (e.g., Pangarkar & Hussain, 2013), linear negative (e.g., Ramaswamy, 1992; Jung et al., 2016), U-curve (e.g., Assaf et al., 2012), inverse U-curve (e.g., Sullivan, 1994; Chen et al., 2014), S-curve model (e.g., Contractor et al., 2003), inverse S-curve (e.g., Krist, 2009), and M-curve model (e.g., Lee, 2013) for the relationship between DoI and firm performance.

Given this conflicting (Capar & Kotabe, 2003), mixed (Hitt et al., 1997), inconsistent (Palich et al. 2000), and contradictory findings (Ruigrok & Wagner,
researchers (e.g., Assef et al., 2012; Xiao et al., 2013) stated that inconclusive findings in DoI-P literature indicate that factors justifying internationalization and performance are not completely understood, and highlight the role of contingency factors which impact DoI-P linkage in domestic or/and foreign markets.

Accordingly, researchers investigated the effects of several moderating factors on DoI-P relationship such as international and product diversification (e.g., Hitt et al., 1997), international experience (Goerzen & Beamish, 2003), industry effects (e.g., Sledge, 2007), firm’s intangible resources (Krist, 2009), R&D and marketing capabilities (Kotabe, et al., 2002), firm size and age (e.g., Bausch & Krist 2007), degree of home country-regional orientation (Lee, 2013), and foreign market entry mode strategy (Yildiz, 2013). However, Zhou, Wu, and Luo (2007) declared that inconsistency in the DoI-P literature could be due to the fact that most of the existing literature in this area attempted to study the direct DoI-P relationship and ignored the indirect relationship and the possible mediating variables.

Hence, researchers (e.g., Hitt et al., 2006; Ray, 2009) called for more research focusing on the role of mediating factors in an indirect DoI-P relationship. Yet, to the best of author’s knowledge, so far very few studies (Zhou et al., 2007; Brock & Yaffe, 2008) empirically examined the indirect DoI-P relationship. Therefore, the present study aims to investigate the performance implication of internationalization in the context of Malaysia, while integrating the mediating role of innovation. In fact, innovation has been considered as a driver of firm internationalization (Radulovich, 2008), an essential instrument for successful expansion strategies (Gunday et al., 2011), and a key source of competitive advantage in firms (e.g., Lee & Rugman, 2012).

The fourth shortcoming of the literature roots in conflicting results in the relationship between firm-level innovation and performance. Despite a large body of literature on the relationship between innovation and firm performance, yet there is no reliable conclusion for this relationship (Li & Atuahene-Gima, 2001; Koc & Ceylan, 2007). Some researchers found a positive (e.g., Adams & Jaffe, 1996; Zahra et al., 2000; Camison & Lopez, 2010), negative (e.g., Graves & Langowitz, 1993; Oxley & Sampson, 2004), and no direct relationship (e.g., Zhang et al., 2007) between firm-level innovation and performance. To address this issue, prior studies (e.g., Li & Atuahene-Gima, 2001) called for more studies investigating moderating variables in the innovation-performance relationship. Accordingly, scholars investigated the moderating effects of owner structure and market focus (Zhang et al., 2007), time (Kafouros, 2005), organizational learning (Alegre & Chiva, 2008), industry (Kessler, 2003), DoI (Kafouros et al., 2008), and external monitors, outside board members, and investors (Le et al., 2006).
However, to the best of our knowledge, the moderating impact of knowledge management system in this context has not been tested yet. Knowledge is a foundation for firm innovation (Plessis, 2007; Overall, 2015), source of firm performance (Rasula et al., 2012), and a unique asset that needs to be well-managed (Davenport & Prusak, 1998) in order to achieve sustainable competitive advantage in the market (Zahra et al., 2000).

Overall, the abovementioned gaps give an opportunity for conducting new research, especially because of the progressing and turbulent environment of business, which always embeds new phenomena. In fact, as suggested by scholars (e.g., Davis, et al., 2000; Hitt et al., 2006), from the theoretical point of view, this research attempts to develop and validate a more holistic theoretical framework focusing on the integration of various insights from firms, countries, and industries perspectives. Table 1.5 illustrates a summary of the research shortcomings after reviewing the relevant literature, which will be addressed in this research.

Table 1.5: Summary of Research Gaps

<table>
<thead>
<tr>
<th>Gaps</th>
<th>Where Research is Concentrated</th>
<th>Where Research is Lacking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry Characteristics</td>
<td>- Type of industries, particularly as control variable (e.g., Almodóvar, 2012); or moderating variable on DoI-P relationship (e.g., Ruigrok et al., 2007)</td>
<td>- Cross-section of industries</td>
</tr>
<tr>
<td>Country Characteristics</td>
<td>Host country factors (e.g., Javalgi &amp; Grossman, 2014)</td>
<td>- Home country factors, particularly in the context of Malaysia</td>
</tr>
<tr>
<td>Firm Characteristics</td>
<td>- Firms resources (tangible e.g., firm size, financial strength) (e.g., Qian, 2002), intangible experience, reputation) (e.g., Krist, 2009; Chen et al., 2014)</td>
<td>- Network relationships on Internationalized firms’ DoI (e.g., Kenny &amp; Fahy, 2011)</td>
</tr>
<tr>
<td>Entry Mode</td>
<td>- Entry mode as a critical internationalization strategy</td>
<td>- Integrating the effects of entry mode diversity on DoI and performance (e.g., Petersen &amp; Welch, 2002)</td>
</tr>
<tr>
<td>Relationship between DoI &amp; Performance</td>
<td>- How firm performance evolves with increasing internationalization</td>
<td>- Explaining the conflicting findings in DoI-P relationship.</td>
</tr>
<tr>
<td></td>
<td>- Pattern and shape of DoI-P (e.g., Kuinda et al., 2009; Lee, 2013)</td>
<td>- Role of mediating variable on DoI-P relationship (Innovation) (e.g., Zhou et al., 2007)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Role of moderating variable on innovation-performance relationship (KMS) (e.g., Li &amp; Atuahne-Gima, 2001)</td>
</tr>
</tbody>
</table>

Source: Developed by Author for this Study
1.5 Research Objectives

Generally, the present research investigates the major issues concerning the international expansion and performance implication of internationalized firms in the context of Malaysia, in order to provide more holistic knowledge about determinants of internationalization and performance of firms; and the relationship between these two factors in internationalized firms from developing countries, particularly Malaysia. The aim of this study is: “To achieve a deeper understanding of Malaysian firms’ degree of internationalization and performance”.

The objectives of present research are as follow:

1) To analyze the impact of firm-level, country-level and industry-level factors on Malaysian internationalized firms’ degree of internationalization and performance.
2) To identify impacts of entry mode diversity on Malaysian internationalized firms’ degree of internationalization and performance.
3) To analyze the relationship between firm’s degree of internationalization and performance of Malaysian internationalized firms and the mediating role of firm innovation.
4) To evaluate the moderating role of knowledge management system on innovation and performance relationship in the context of Malaysian internationalized firms.

1.6 Research Questions

In this chapter, the importance of internationalization for Malaysian companies is clearly explained. Given the importance of performance maximization as the main objective of firms and the increasing rate of internationalized firms from Malaysia, finding factors affecting their internationalization as well as performance would be relevant. To achieve the above objectives, the present research is guided by the following questions:

1) Are firm, country, and industry characteristic significant in explaining the DoI and firm performance?
2) Does entry mode diversity explain the DoI and firm performance?
3) What is the relationship between DoI and firm performance for Malaysian internationalized firms?
4) Does firm innovation mediate the relationship between DoI and performance?
5) Does knowledge management system moderate the relationship between innovation and performance?

These research questions will guide the present study and will be answered at the end of the study. The scope of study is explained in the following section.
1.7 Scope of the Study

The scope of this study is structured based on all Malaysian-based publicly listed internationalized firms having presence and operation in international markets (exporting, business contracts and FDI) with at least three years of international experience while excluding government agencies and non-profit organisations. In order to provide a holistic insight, reliable and consistent results, this study covers Malaysian internationalized firms from all industries and business sectors without stratification. What is more important is that firms selected in this study all are Malaysian-based (headquarter located in Malaysia). Being developing country firms, internationalization is a critical strategy for them to accumulate international knowledge, exploit technological and managerial resources, expand their business into global markets and ultimately obtain better performance.

1.8 Operational Definitions

The scope of this research is guided by the operational definitions of the following terms. More detailed description of other important terms appears in subsequent chapters of the thesis.

- **Internationalization**

  In this study, the general definition of internationalization are more appropriate to convey the aspects of internationalization such as being an entrepreneurial, adjustable, dynamic and gradual process, providing foreign market knowledge and awareness, integrating both internal and external business activities, and establishing network of relationships that provide growth opportunities for firms. Hence, this study defines internationalization as “an entrepreneurial process which starts with awareness and willingness of firms to expand their businesses to other countries that is proceeded gradually by developing network of relationships and acquiring essential knowledge to move firms’ business from domestic market to international markets” (adapted from Miesenbock, 1988; Welch et al., 1988; Beamish et al., 1990; Johanson & Vahlne, 1990; Javalgi et al., 2003).

- **Degree of Internationalization**

  Based on the Elango’s (2006) definition, the present study covers both international and multinational companies under the general concept of internationalization and defines the degree of internationalization as “the degree to which companies’ sales, revenue or operations is derived from the outside of the home country”.
- **Internationalized Firm**

The definition of an internationalized firm utilised in this study is “a domestic large companies headquartered in Malaysia, publicly listed on Bursa Malaysia and currently use various entry mode strategies is engaged in international business activities in one or more foreign markets with at least three years of international business experience”.

1.9 **Theoretical Understanding of the Research**

The present study employs Uppsala theory as the main underpinning theory of this study and also some other supportive theories such as resource-based view, network theory, eclectic paradigm and institutional theory to provide more justification for postulated relationship between variables in the proposed theoretical framework.

In fact, exploring internationalization process model of firms, which can be performed via incremental process; rapid or born-global, and discovering how and when firms internationalize is not the main concern of this study. This study aims to identify factors affecting firms’ DoI and their performance; as well as the relationship between these two outcomes (DoI and performance). Therefore, using Uppsala theory as the basis, this study explains that learning from multiple aspects (firm, home country, industry, and entry mode diversity) enhances firm’s DoI and performance.

The main influential factors highlighted by this theory are experiential knowledge (knowledge of foreign market problems and opportunities), commitment, psychic distance and establishing relationships in foreign markets (Johanson & Vahlne, 1990). Consistent with Uppsala theory, the experiencing and learning of the internationalized firms such as experience of the whole market (e.g., home country) and international market (e.g., firms experience and industry experience), as well as commitment that firms are going to have in terms of diversifying and internationalizing (i.e., entry mode) may result in effective internationalization. Thus, this study proposes three categories of factors influence firms’ DoI and performance.

Additionally, as prior studies (e.g., Hennart, 2007) noted, there is no one theoretical basis that can completely explain the complex DoI-P relationship, hence, some supportive theories (i.e., RBV, eclectic paradigm, network theory, and institutional theory) are used in this study. For instance, the network theory as a complementary theory for the Uppsala theory (Ghanatabadi, 2005) is used to explain the role of firms’ networking on DoI and performance development. The RBV also as one the most influential theoretical view in the IB research (Xu & Meyers, 2012) is employed to justify the firms’ DoI and performance.
determinants from the perspective of their critical resources and capabilities. Besides, the institutional theory is used to support the influence of home government attitude on DoI and performance.

1.10 Structure of the Thesis

As Figure 1.4 illustrates, this thesis consists of six chapters. The first chapter (introduction to the research) helps readers to obtain a general idea about the whole research by presenting the context of study and background, whilst outlining the objectives and questions of the research.

Chapter two explains the theoretical basis of the research considering the existing theories in internationalization including Uppsala theory, network theory, resource-based view, OLI theory, institutional theory. This chapter particularly provides a clear explanation about internationalization dimensions and strategies, followed by a brief introduction to the relationship between degree of internationalization and firm performance.

In chapter three hypotheses development, the relationships, DoI and its performance in the context of international business are justified. In this chapter, the existing literature about antecedents of internationalization and performance, the relationship between these two factors are reviewed and analyzed, which enables us to identify improvement opportunities and provide the foundation for developing an integrated conceptual model for this study.

Chapter four explains the methodology in the present research in detail and highlights the steps and specific processes developed for each section of the study. This chapter starts with a justification for the research method (quantitative or survey method), with the support of the literature on this subject followed by an outline of the research design. Finally, the analysis method employed in this study is introduced to the readers.

Chapter five presents the analysis of data and highlights the key findings observed regarding antecedents of DoI and performance, as well as direct and indirect relationships between DoI and performance while considering the mediating role of innovation, and also the moderating role of KMS toward innovation and performance relationship in the context of Malaysia.

Chapter six presents the discussion and conclusion for the present study. In this chapter, detailed discussions about research findings are presented, followed by research contributions and implications to the theories, business practitioners, and
policy makers. The chapter ends with research limitations and directions for future studies.

1.11 Chapter Conclusion

In this chapter (introduction to the research), the context of the study has been explained. Also, the research objectives and research questions have been outlined to give an overview of the whole research. This study attempts to provide a holistic understanding of the drivers of Malaysian internationalized firms in degree of internationalization and performance. This research firstly investigates the antecedents of Malaysian internationalized firms’ DoI and performance, and secondly the relationship between internationalized firm’s DoI and performance via the mediating role of innovation was tested. Next chapter explains the theoretical basis of this research.

Figure 1.4: Structure of the Thesis
REFERENCES


Buckley, P. J., & Ghauri, P. N. (1999). The internationalization of the firm. Cengage Learning EMEA.


Cateora, P & Graham, J (2001), «Marketing Internacional». Rio de Janeiro: LTC.


10, presented at the 32nd EIBA conference 2012 at the University of Sussex, Brighton, UK, Dec 7-9.


Khoo, D (2012), what drives superior performance when large firms internationalize?, PhD research, The University of Western Australia, The UWA Business School.


Rieck, O. et al. (2005): The relationship between degree of internationalization and firm performance in the telecommunications industry. Paper presented at the 16*


Teece, D. J. (1986), "Profiting from Technological innovation."


Tolentino, P. E. (2010). Home country macroeconomic factors and outward FDI of China and India. *Journal of International Management*, 16(2), 102–120


