



UNIVERSITI PUTRA MALAYSIA

***ANTECEDENT AND OUTCOMES OF HUMAN CAPITAL IN ENHANCING
SERVICE SMALL- AND MEDIUM-SIZED ENTERPRISES'
INTERNATIONAL PERFORMANCE***

NORWAN BIN AHMAD

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INTERNATIONAL PERFORMANCE**

By

NORWAN BIN AHMAD

**Thesis submitted to the School of Graduate Studies, Universiti Putra Malaysia,
in Fulfilment of the Requirements for the degree of Doctor of Philosophy**

June 2020

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Abstract of a thesis presented to the Senate of Universiti Putra Malaysia in fulfilment of
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June 2020

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This study is aimed at improving comprehension on the antecedent and outcomes of human capital in enhancing international performance of business service small- and medium-sized enterprises (SMEs) by drawing on the Dynamic Capability View, Resource-based Theory, and Institutional Theory. Essentially, human capital reflects the knowledge, skills, and abilities of individuals in a firm, which are key for enhancing international performance concerning success in foreign markets such as in terms of revenue, profit, and market share. Despite the importance of human capital in influencing performance as well as the fact that business service SMEs' depend highly on human capital, investigations in the literature on the antecedents and outcomes of human capital on international performance is still limited. Investigation into the relationship between human capital and international performance is pivotal in light of the challenges facing Malaysian business service SMEs which suffer from weak international performance. This study proposes that managing human capital wisely may enhance SMEs' capabilities and create innovative service offerings, which may contribute to better international performance. Also, the study suggests that one of the ways to develop human capital is through the adoption of a knowledge-based human resource management. A quantitative research method is employed involving a survey on 278 business service SMEs from Malaysia. Prior to conducting the quantitative study, a qualitative preliminary study was conducted to validate the factors that drive international performance found from the literature, which facilitate the development of the research framework. Four key findings were found from this study. First, knowledge-based human resource management was indeed an antecedent of human capital. Second, human capital was found to positively influence international performance. Third, dynamic capability in the aspects of entrepreneurial orientation, foreign market knowledge, marketing capability, and technological capability were found to mediate the relationship between human capital and innovative service offerings. Fourth, innovative service offerings and government facilitation were found to drive the international

performance of business service SMEs. These findings point towards the importance of both, internal resources and capabilities, as well as external support from the government in ensuring international performance among business service SMEs. The study provided support for Resource-based Theory, Dynamic Capability View, and Institutional Theory. The study's findings are beneficial for the stakeholders of the industry such as business service SMEs, government agencies, and trade associations.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia
sebagai memenuhi keperluan untuk ijazah Doktor Falsafah

**FAKTOR PENYUMBANG TERHADAP PEMBANGUNAN MODAL INSAN
SERTA KESAN MODAL INSAN TERHADAP PENINGKATAN PRESTASI
PENGANTARABANGSAAN PERUSAHAAN KECIL DAN SEDERHANA
DALAM INDUSTRI PERKHIDMATAN**

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Kajian ini bertujuan mempertingkatkan kefahaman berhubung faktor yang menyokong modal insan serta kesan modal insan terhadap prestasi pengantarabangsaan perusahaan kecil dan sederhana (PKS) dalam industri perkhidmatan perniagaan dengan berlandaskan kepada Pandangan Keupayaan Dinamik, Teori Berasaskan Sumber, dan Teori Institusi. Pada asasnya, modal insan menggambarkan pengetahuan, kemahiran, dan keupayaan individu di dalam syarikat, yang merupakan faktor penting dalam meningkatkan prestasi pengantarabangsaan termasuklah dalam aspek seperti pendapatan, keuntungan, dan syer pasaran. Walaupun modal insan mempunyai kesan terhadap prestasi pengantarabangsaan dan PKS dalam industri perkhidmatan perniagaan mempunyai kebergantungan tinggi terhadap modal insan, kajian lepas berhubung faktor yang menyokong modal insan serta kesan modal insan terhadap prestasi pengantarabangsaan PKS masih terhad. Kajian terhadap hubungan antara modal insan dan prestasi pengantarabangsaan adalah penting dalam keadaan di mana PKS dalam industri perkhidmatan perniagaan di Malaysia berdepan dengan prestasi pengantarabangsaan yang lemah. Kajian ini mengesyorkan bahawa modal insan yang diurus dengan baik berupaya untuk meningkatkan keupayaan PKS dalam mencipta perkhidmatan yang inovatif dan seterusnya menyumbang kepada peningkatan prestasi pengantarabangsaan. Sehubungan ini, kajian berkaitan hubungan antara modal insan dan prestasi pengantarabangsaan adalah penting dalam keadaan di mana PKS dalam industri perkhidmatan perniagaan di Malaysia berhadapan dengan prestasi pengantarabangsaan yang lemah. Kajian ini juga mengesyorkan bahawa salah satu cara untuk membangunkan modal insan adalah dengan menggunakan pengurusan sumber manusia berasaskan pengetahuan. Kajian ini menggunakan kaedah penyelidikan kuantitatif melibatkan kaji selidik terhadap 278 PKS dalam industri perkhidmatan perniagaan di Malaysia. Sebelum kajian kuantitatif dilaksanakan, kajian awalan dengan menggunakan kaedah kualitatif dilaksanakan terlebih dahulu untuk mengesahkan faktor-faktor yang memacu prestasi pengantarabangsaan yang diperolehi

dari kajian literatur yang membantu dalam membangun kerangka kajian. Kajian ini menghasilkan empat dapatan kajian yang utama. Pertama, pengurusan sumber manusia berasaskan pengetahuan merupakan faktor penyumbang kepada modal insan. Kedua, modal insan didapati menyumbang kepada peningkatan prestasi pengantarabangsaan. Ketiga, keupayaan dinamik dalam aspek orientasi keusahawanan, pengetahuan pasaran asing, keupayaan pemasaran, dan keupayaan teknologi memainkan peranan sebagai pengantara dalam hubungan antara modal insan dan perkhidmatan yang inovatif. Keempat, perkhidmatan yang inovatif dan fasilitasi kerajaan didapati menyokong prestasi pengantarabangsaan PKS dalam industri perkhidmatan perniagaan. Kesemua dapatan kajian ini menunjukkan bahawa sumber dan keupayaan serta bantuan daripada pihak kerajaan adalah penting untuk meningkatkan prestasi pengantarabangsaan PKS dalam industri perkhidmatan perniagaan. Kajian ini menyokong Teori Berasaskan Sumber, Pandangan Keupayaan Dinamik, dan Teori Institusi. Dapatan dari kajian ini bakal memberi manfaat kepada pemegang taruh industri seperti PKS dalam industri perkhidmatan perniagaan, agensi kerajaan dan pertubuhan industri.

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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:

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LIST OF ABBREVIATIONS

| | |
|------------|---|
| ASEAN | Association of South East Asian Nations |
| AVE | Average Variance Extracted |
| BNM | <i>Bank Negara Malaysia</i> |
| CA | Cronbach Alpha |
| CB-SEM | Covariance-based Structural Equation Modelling |
| CI | Confidence interval |
| CMV | Common Method Variance |
| CR | Composite Reliability |
| CVR | Cross-validated Redundancy |
| DCV | Dynamic Capability View |
| DOSM | Department of Statistics Malaysia |
| EPU | Economic Planning Unit |
| EFA | Exploratory Factor Analysis |
| EO | Entrepreneurial Orientation |
| f^2 | Effect Size |
| FDI | Foreign Direct Investment |
| FMK | Foreign Market Knowledge |
| FTA | Free Trade Agreement |
| GDP | Gross Domestic Products |
| GF | Government Facilitation |
| GFInfo | Government Facilitation on Information Sharing |
| GFTrade | Government Facilitation on Trade Mobility Support |
| GFNetw | Government Facilitation on Networks Creation |
| Go-Ex | Go Export |
| HC | Human Capital |
| HRM | Human Resource Management |
| HTMT | Heterotrait-Monotrait |
| H0 | Null Hypothesis |
| H1 | Alternate Hypothesis |
| ICT | Information, Communication and Technology |
| IP | International Performance |
| IPObj | Objective Measures of International Performance |
| IPSubj | Subjective Measures of International Performance |
| ISO | Innovative of Service Offerings |
| KBHRM | Knowledge-based Human Resource Management |
| KBHRMRec | KBHRM – Recruitment and Selection |
| KBHRMTrain | KBHRM – Training and Development |
| KBHRMPerf | KBHRM – Performance Assessment |

| | |
|----------------|---|
| KBHRMCom | KBHRM – Compensation |
| Matrade | Malaysia External Trade Development Corporation |
| MC | Marketing Capability |
| MIDA | Malaysian Investment Development Authority |
| MITI | Ministry of International Trade and Industry |
| MPC | Malaysia Productivity Corporation |
| MRA | Mutual Recognition Arrangement |
| MSPC | Malaysia Service Providers' Confederation |
| N | Population |
| n | Sample Size |
| NEC | National Export Council |
| NeCC | National e-Commerce Council |
| NKEA | National Key Economic Area |
| NSDC | National SME Development Council |
| OECD | Organisation for Economic Cooperation and Development |
| PEMANDU | Performance Management and Delivery Unit |
| PLS | Partial Least Squares |
| PLS-SEM | Partial Least Squares Structural Equation Modelling |
| Q ² | Predictive Relevance |
| R ² | Coefficient of Determination |
| R&D | Research and Development |
| RBV | Resource-based View |
| RBT | Resource-based Theory |
| RC | Relational Capital |
| SC | Structural Capital |
| SEM | Structural Equation Modelling |
| SME | Small- and Medium-sized Enterprise |
| SME Corp. | Small- and Medium-sized Enterprise Corporation |
| SPSS | Statistical Package for Social Sciences |
| TC | Technological Capability |
| TR | Track Record |
| USD | United States Dollar |
| VAF | Variance Accounted For |
| VIF | Variance Inflation Factor |
| WTO | World Trade Organisation |

CHAPTER 1

INTRODUCTION

1.1 Chapter Overview

The current chapter covers the background of the study and justifies the merit of investigating the internationalisation of business service small- and medium-sized enterprises (SMEs). The chapter then discusses the internationalisation issues facing business service SMEs and the importance of resources, capabilities, and institutional support in gaining sustained international performance (IP). The chapter proceeds by discussing the problem statement of the study, followed by discussions on the research questions, research objectives, significance, scope, organisation of thesis, the operational definition of the key terms, and the chapter summary.

1.2 Background of Study

International trade is one of the significant contributors to growth for firms and countries across the globe (Kyophilavong, Wong, Souksavath, & Xiong, 2017). Globally, trade to gross domestic product (GDP) ratio has been increasing steadily from less than 25% in 1960 to about 58% in 2017 (World Bank, 2019c). The force of globalisation (Dunford, Dunford, Barbu, & Liu, 2013), the tumbling of trade and investment barriers (Huang, 2016), the advent of technology (Antimiani & Costantini, 2013), as well as improved efficiency in logistics and transport services (Saslavsky & Shepherd, 2012) have greatly facilitated the internationalisation of firms, including firms from the developing economies (Bello, Radulovich, Javalgi, Scherer, & Taylor, 2016). In fact, internationalisation has become part and parcel of these firms' strategy for growth (Etemad & Lee, 2003).

Services trade is an important component of international trade (Moen, Gavlen, & Endresen, 2004) and contributed USD42.5 trillion in global trade in 2017 as compared to USD19.1 trillion in 2005 based on the latest available statistics provided by the World Trade Organisation (WTO) (WTO, 2019). This reflects that services trade is gaining traction, which is consistent with the changing structure of the global economy which gravitates towards services-based rather than manufacturing- and agriculture-based (Holmlund, Kowalkowski, & Biggemann, 2016).

The changing business landscape at the global level facilitated by the factors discussed in the earlier paragraphs has opened up doors for greater participation of service firms from emerging economies in international trade (Bello et al., 2016; Radulovich, Javalgi, & Scherer, 2018). These factors also contributed to the increasing significance of the role of service firms from emerging economies in international trade (Bello et al., 2016). Given these favourable conditions, the global business service industry has risen as one

of the industries which recorded increasing growth trajectory (Bello et al., 2016; Dotzel, Shankar, & Berry, 2013).

From the lens of SMEs, internationalisation is important for their growth and survival (Javalgi, Todd, & Granot, 2011; Radulovich et al., 2018). In this regard, the internationalisation of SMEs has been the subject of interest to many interested parties such as the academics, industry and policymakers (Bello et al., 2016). This is due to SMEs' significant contribution to the economy, trade, employment, innovation (Bell, Crick, & Young, 2004) and social inclusion (OECD, 2017). Due to this, SME internationalisation has become one of the focus areas for policy formulation and reform for countries around the world (Bell et al., 2004).

From the perspective of Malaysia as a small, open, and upper-middle-income economy (World Bank, 2019a), Malaysia relies heavily on international trade to sustain its economy as reflected in the trade to GDP ratio which consistently surpassing 100% from 1979 until 2018 (World Bank, 2019c). In 2018, the ratio was 132.25% (World Bank, 2019c). The international trade for Malaysia showed somewhat similar trends with the global trade trends from 2012 until 2017. In 2017, services trade contributed USD30 billion in international trade for Malaysia compared with USD18.2 billion in 2005 as reflected in the latest available statistics provided by the WTO (WTO, 2019). Also, Malaysia was ranked 32nd in export and 30th in import of commercial services in 2017, whereby 0.7% of the world's trade in commercial services were contributed by Malaysia (WTO, 2019).

In this regard, the IP of service SMEs in Malaysia warrants investigation as service SMEs represent 89.2% from total establishment and yet, the services trade account has been experiencing a widening trade deficit of RM17.7 billion in 2018 compared with a surplus of RM1.4 billion in 2011 (BNM, 2019). Taking into account the key role played by the service sector as well as SMEs' involvement in international trade, this thesis proffers the research on service SMEs' IP. The following sections will discuss the service industry and its importance to Malaysia's economy as the context of the study, before proceeding with the problem statement, research questions, research objectives, scope, as well as the significance of the current study.

1.3 Service Industry

The discussion in this section firstly highlights the classification of services and the importance of services for countries across the world. Subsequently, Malaysia's context is provided by highlighting the sector's performance and importance, before zooming into the business service industry as the focus industry of the current study.

1.3.1 The Classification of Service Industry

The classification of the service industry offered by the literature has been mostly centred on the general characteristics of services, how they are delivered, and to what extent they differ from goods (Lovelock, 1983; Lovelock & Yip, 1996). Essentially, firms in the service sector can be grouped into two categories, namely hard and soft services (Erramilli & Rao, 1990; Sepulveda, 2014). Hard services are similar to physical goods, whereby the separation of production and consumption of services is possible (Erramilli & Rao, 1990). Among others, music, packaged software, and engineering design are services which can be regarded as hard services (Erramilli & Rao, 1990). Meanwhile, soft services require proximity and involve the simultaneous process of producing and consuming services (Erramilli & Rao, 1990). Examples of soft services include management consulting, food services and accommodation (Erramilli & Rao, 1990).

Essentially, industries such as healthcare, education, finance, ICT, construction, transport and storage, food and beverages, retail, tourism, and business services are the industries within the broader service sector based on the national account provided by the Department of Statistics Malaysia (DOSM) (DOSM, 2019b). In the current study, focus will be directed towards business service industry, which includes architectural, engineering, legal, accounting, business consulting, advertising, real estate, construction related services, and other business services in line with the Service Exporters' Directory provided by Malaysia External Trade Development Corporation (Matrade) (Matrade, 2019).

1.3.2 The Importance of Service Industry to the Global Economy

Service industry is one of the key contributors to economic growth and trade for countries from around the world (Holmlund et al., 2016; Meliá, Pérez, & Dobón, 2010). Service industry is also subjected to high regulations by countries (Samiee, 1999). However, the advent of technology, increased globalisation and trade liberalisation, as well as improved services tradability have facilitated the internationalisation of services (Cattaneo, Engman, Saez, & Stern, 2010; Zahler, Iacovone, & Mattoo, 2014). In 2017, the service sector contributed 65.04% to the world's GDP compared with manufacturing sector at 15.65% and agriculture sector at 3.40% based on the latest available statistics provided by the World Bank (World Bank, 2019b). The importance of service industry, as well as the rise of the knowledge economy, has provided the impetus for greater understanding on how the industry affects the global trade and investment patterns (Meliá et al., 2010; Tchamyou, 2017).

1.3.3 Service Industry in Malaysia

Service industry is one of the major contributors to Malaysia's economy. In 2018, the industry contributed 55.6% to the GDP, as compared to the manufacturing sector which contributed 21.6%, mining and quarrying (9.3%), agriculture (7.5%) and construction

(4.8%) (DOSM, 2019a). Service sector also provided more than 8.9 million jobs (DOSM, 2018), registered a trade value of more than RM342 billion (DOSM, 2019a, 2019e), a productivity level of RM87,000 (MPC, 2019), and a net flows of RM16.4 billion in foreign direct investment (FDI) in 2018 (DOSM, 2019d). In terms of exports, the service sector recorded an export figure of RM162 billion in 2018 (DOSM, 2019e). The most substantial service export earnings in 2018 were contributed by the tourism sector with RM79.2 billion, followed by business services with RM26.8 billion and transport services with RM20.4 billion (DOSM, 2019e). Although recorded the highest export earnings, the tourism sector's internationalisation is inward in nature involving the incoming of tourists from other countries (Bianchi, 2011; Otengei, Bakunda, Ngoma, Ntayi, & Munene, 2017) unlike business and transport services, which are outward in nature. Although business service SMEs from developing countries, including business service SMEs from Malaysia have increasingly shown the capability to compete internationally, challenges persist including in the aspect of managing talents for internationalisation (Cui, Khan, & Tarba, 2016) which points towards the need to improve the human capital aspect of SMEs (Haiyang, Xiwei, & Geng, 2017). The discussion in this section highlights the importance and significance of the business service industry in international trade as well as the challenges that they face in internationalising, which become the basis of why the industry is chosen as the context of the study.

1.3.4 Business Service Industry in Malaysia

Business service is an industry under the broader service industry (den Hertog, 2000). The industry can be categorised as soft services which require simultaneous production and consumption and is knowledge-intensive (Abdelzaher, 2012; Ball, Lindsay, & Rose, 2008). The process of providing business services require close interaction of the parties involved, particularly the service provider and customers, to ensure that the solutions are tailored to customers' needs (Ball et al., 2008).

Within Malaysia's context, SMEs in the business service industry has shown significant contributions to the Malaysian economy. The business service industry is composed of engineering, architectural, legal and accounting, business consulting, real estate, construction-related, advertising, and other business services (Matrade, 2019). Based on the latest available economic census, there were more than 34,000 business service SMEs, which employed more than 314,000 people (DOSM, 2017). The industry also contributed RM65 billion in value-added and RM26.8 billion in export in 2018 (DOSM, 2019c). This is against the backdrop of SMEs' overall contribution to the Malaysian economy whereby SMEs represent 98.5% of the total establishment of which 89.2% were service SMEs, contributed 37.1% to the GDP, employed 66% of the population and contributed 17.3% to total export in 2018 (DOSM, 2019b). These statistics reflect the importance of SMEs, including business service SMEs, in providing jobs as well as in contributing to trade, economy and social inclusion for Malaysia. The focus on business service SMEs for the current study is also in keeping with the rise of services trade involving SMEs from developing countries. This is also in line with Malaysia's current policy focus to further promote the industry as one of the key growth industries as contained in various policy documents such as the Eleventh Malaysia Plan, SME

Masterplan, and National Key Economic Area (NKEA) (EPU, 2015a; PEMANDU, 2014; SME Corp., 2012).

However, the definition of SMEs varies across countries. Different studies on SMEs have used different definitions according to the country context as in the case of the European Union (Torkkeli, Kuivalainen, Saarenketo, & Puumalainen, 2016), South Korea (Jeong, 2016), New Zealand (Chetty & Stangl, 2010) and the United States of America (Jin & Jung, 2016). For instance, SMEs in South Korea are firms which recorded yearly revenue of below USD 146 million or firms which employed less than 300 workers (Jeong, 2016). The different SME definitions used across the world, as discussed earlier reflects the importance of country context in defining SMEs. Therefore, the current study employs the SME definition as prescribed by SME Corp. Malaysia. Based on this definition, service SMEs are firms with an annual revenue not exceeding RM20 million and a headcount of 75 and below (SME Corp., 2014). Other studies on Malaysian SMEs such as Hashim (2015) and Ramayah, Ling, Taghizadeh, and Rahman (2016) have also used the definition employed by SME Corp.

1.4 Malaysia's SMEs Internationalisation

As the engine of the service industry, service SMEs are increasingly becoming more internationalised in their quest for growth and survival (Kraus, Mitter, Eggers, & Stieg, 2017). Already, SMEs from around the world have become increasingly integrated with the global market and contributed about 30% of the world's total exports in 2015 (FedEx Express, 2015). Within the context of service SMEs in Malaysia, Malaysia has set targets to develop the service industry further, increase services contribution to GDP to 55% by the year 2020, as well as step up the internationalisation of service firms (EPU, 2015b). In 2018, the SMEs registered an export growth of 3.4% compared with 7.2% in 2017 (DOSM, 2019c). The export performance was driven by export growth in the manufacturing industry with 5.1% and services industry with 2.0% (DOSM, 2019c). The SMEs in the agriculture industry however, registered a negative export growth at - 2.0% in 2018 due to slower export growth of vegetables and fruits. It is worth noting that the export growth of SMEs in the service industry showed moderating trends from 6.7% in 2017 to 2.0% in 2018 owing to the slower export growth of the travel, transport, and business services accounts (SME Corp., 2018).

In terms of target market, the SME Annual Report 2017/2018 produced by SME Corp. highlighted that SMEs from Malaysia focused their internationalisation efforts in markets namely, the Association of South East Asian Nations (ASEAN), China, and the United States of America (SME Corp., 2018). The report also showed that Malaysian SMEs had taken various initiatives to boost export such as through the building of network with external parties, diversifying into new markets, and participating in international trade promotion activities (SME Corp., 2018).

Despite forming the most significant number of establishment at 98.5% from the total establishment, the level of export among Malaysian SMEs was still low at 17.3% in 2018 (DOSM, 2019c) as compared with Hong Kong (50%), China (45%), Singapore (41%) as well as the global average of 30% (FedEx Express, 2015). Increasing the IP of service firms is therefore pertinent to ensure sustainable growth for firms and at the same time, improve Malaysia's overall trade balance.

1.5 Internationalisation Issues

SMEs which are resources- and capabilities-deficient, are facing challenges in going international (Martin, Javalgi, & Cavusgil, 2017). In the case of service SMEs from Malaysia, they face multiple issues such as low export capabilities, little understanding of foreign markets, limited access to financing, limited collaboration between small and large firms in venturing abroad (EPU, 2015a), inadequate knowledge on competitors, and constraints in human capital (SME Corp., 2018). Specific to business service SMEs, they have issues concerning their capacity to adopt technology, lack of capability to compete and lack of talents (EPU, 2015a). Business service SMEs also lack financial strengths, lack understanding of business culture in export markets, and are risk-averse (The Star, 2017). Furthermore, the Organisation for Economic Cooperation and Development (OECD) in its report in 2017 also highlighted that SMEs in Malaysia undertook little innovation (OECD, 2017). In this relation, the lack of innovative offerings and solutions among Malaysian SMEs has been associated with the lack of human capital (SME Corp., 2018).

Therefore, the situation is pressing, not only for Malaysian SMEs to ensure sustained growth and IP, but also for the country, particularly against the backdrop of narrowing trade surplus which declined 68.7% from RM99.3 billion in 2011 to RM30.6 billion in 2018, and widening services trade deficit which recorded RM17.7 billion in 2018 compared with a surplus of RM1.4 billion in 2011 (BNM, 2019).

1.6 The Importance of Resources and Capabilities for Internationalising SMEs

The issues discussed in the earlier paragraphs point toward the industry gaps facing Malaysian SMEs in internationalising, which warrants further investigation, while at the same time highlight the key roles played by resources and capabilities in ensuring IP. In its report in 2018, SME Corp. highlighted the importance of resources and capabilities for internationalising SMEs (SME Corp., 2018). Among others, human capital, foreign market knowledge, technological capability, financing, and innovative service offerings have been identified as key for creating sustained IP (SME Corp., 2018). This notion is in line with the resource-based theory (RBT) (Barney, 1991; Barney, Ketchen, & Wright, 2011) and dynamic capability view (DCV) (Eisenhardt & Martin, 2000; Teece, Pisano, & Shuen, 1997). The RBT posits that the creation of a firm's sustained competitive advantage is contingent upon the firm's ownership of resources (Barney, 1991; Barney et al., 2011). Resources can take the form of physical (e.g. equipment and finance), human (e.g. knowledge and expertise), and organisational (e.g. structures and systems)

(Barney, 1991), which are key for creating competitive advantage among firms (Eisenhardt & Martin, 2000).

Furthermore, firms in the business service industry are involved in providing knowledge-intensive services as in the case of real estate services, advertising services, and professional services (Radulovich et al., 2018) to solve customers' problems (Reihlen & Apel, 2007). This reflects the high dependency on a workforce that is well-educated and highly skilled (Bunz, Casulli, Jones, & Bausch, 2017; Reihlen & Apel, 2007). Essentially, the capability, capacity, and quality of human capital are key in creating value and providing innovative solutions for service firms (EPU, 2015a; Sveiby, 1997). In this regard, generating innovative services is pertinent for service firms in creating sustainable competitive advantage (Prajogo & Oke, 2016; Storey & Kahn, 2010) and IP (Bello et al., 2016). Essential to this notion is the need for firms to leverage their dynamic capabilities in delivering innovative services (Vargo & Lusch, 2004). This is in line with the DCV, which posits that firms need to have the capabilities to reconfigure existing resources and competencies to respond to environment dynamics (Teece et al., 1997). In fact, Vargo and Lusch (2004) viewed resources and capabilities as part and parcel of service offerings, which mediate the relationship between a firm and its customers and enhances performance.

In addition to resources and capabilities, generating innovative services is also pertinent for service firms in creating sustainable competitive advantage (Prajogo & Oke, 2016; Storey & Kahn, 2010) and IP (Bello et al., 2016). Essentially, the capability to offer innovative services reflect the ability of service firms to create new, or enhance existing services that provide improved benefits to customers (Dotzel et al., 2013; Prajogo & Oke, 2016). This is particularly crucial in light of the growing and changing demand of the global markets (Lee, Ginn, & Naylor, 2009). Innovative services will enable firms to retain existing clients and attract new clients (Prajogo & Oke, 2016). In a way, the capability to consistently offer innovative services will enable service firms to create loyalty among customers (Cavusgil & Knight, 2009) due to their increased dependency on the services provided by the firms (de Brentani, 2001). This entails a high-switching costs among customers as well as create innovation-led barrier among competitors (de Brentani, 2001). In other words, providing innovative services may lead to enhanced revenue and profits (de Brentani, 2001). Despite the importance of providing innovative services, Malaysian SMEs have been found to undertake little innovation (OECD, 2017) and the lack of innovative solutions among Malaysian SMEs was associated, among others, to the lack of human capital (SME Corp., 2018).

1.7 Institutional Support for SME Development

Since SMEs are involved in various economic sectors, a plethora of government agencies are involved in developing SMEs in Malaysia. Nonetheless, Malaysia has dedicated agencies tasked with coordinating and promoting the development and internationalisation of SMEs. Small- and Medium-sized Enterprise Corporation (SME Corp.) was established under the Ministry of International Trade and Industry (MITI) as the guardian agency that formulates policies and strategies to develop all SMEs

regardless of their sectors (SME Corp., 2017b). Meanwhile, Matrade is tasked with facilitating the internationalisation of Malaysian goods and services (Matrade, 2017a).

In addition, the National SME Development Council (NSDC) was established in 2004 to serve as the highest policy-making body for overall SME development (SME Corp., 2017a). Malaysia has also established councils such as the National eCommerce Council (NeCC) to spearhead the efforts of encouraging the adoption of e-commerce and industry 4.0 among industry players (MITI, 2019) and the National Export Council (NEC) to streamline internationalisation promotion policies, strategies and activities to further spur the growth of export (Matrade, 2017b). Specific policy documents for SMEs and service industry have also been formulated, such as the SME Masterplan, Services Sector Blueprint, and the Eleventh Malaysia Plan containing strategies for the development and internationalisation of services and SMEs (MITI, 2017c; SME Corp., 2012; EPU, 2015b). This reflects the proactive role that the government of Malaysia is taking in developing and internationalising Malaysian industries, including SMEs.

Furthermore, Malaysia has also signed various free trade agreements (FTAs) and mutual recognition arrangements (MRAs) at the bilateral, regional and multilateral levels covering goods, services and investments (MITI, 2017b). These FTAs and MRAs will open up doors for opportunities that swing both ways, to the benefit of Malaysian industries in venturing abroad as well as the industries from FTA partner countries in serving the Malaysian market. Malaysia has also autonomously liberalised 45 service subsectors that will open up doors for foreign firms to serve the domestic market (MITI, 2017a). In a way, the liberalisation of the service sector is a dual-edged sword strategy aimed at making domestic firms more competitive with the incoming competition from foreign firms into the country, which will make them better able at competing internationally (MITI, 2017b). Despite the government's facilitation, the services trade deficit continues to widen, raising the issue of whether the government or the individual service firm's human capital capability is responsible for poor IP.

1.8 Problem Statement

From a macro perspective, Malaysia is facing the issue of a persistent and growing services trade deficit, which stood at RM17.7 billion in 2018 (BNM, 2019). Personal conversation with the President of the Malaysian Service Providers' Confederation (MSPC) indicated that the services trade deficit is attributed to 'strong import growth' and 'weak export growth' (Abd Radzak bin Abd Malek, personal communication, 11 October 2018). This view is supported by authors such as Dai, Jiang, Yang and Ma (2017) and Puig (2018) who were of the view that trade deficit happens when import is greater than export. In a way, addressing services trade deficit requires the involvement of various stakeholders such as the government, industry bodies, and firms. From the perspective of firms, the deficit in services trade account reflects the low level of IP at the macro level. Studies investigating the factors affecting the IP of service firms are, therefore, pertinent. This is particularly important considering the SMEs make up 98.5% of total establishment and 17.3% export (DOSM, 2019c).

Furthermore, research evidence about the internationalisation of service SMEs, particularly from developing countries is still scarce (Bello et al., 2016; Radulovich et al., 2018). Previous studies have focused more on the manufacturing sector (Gardó, García, & Descals, 2015; Zahler et al., 2014) and the available studies on services tended to focus on large service firms from the advanced economies (Radulovich et al., 2018; Zahler et al., 2014). While the existing literature has provided understanding on the factors that drive the IP of firms, it is worth noting that the competitive behaviour of small firms differ from large firms (Chen & Hambrick, 1995). The factors that affect the behaviours of firms are also different in the context of developed and developing countries (Peng, Wang, & Jiang, 2008; Yamakawa, Peng, & Deeds, 2008). The nature of the service industry is also different from goods (Samiee, 1999). Therefore, service SMEs' internationalisation is still a subject that is not well understood, thereby necessitate the examination of the topic to provide a broader account of the internationalisation of SMEs (Pogrebnjakov & Maitland, 2011; Radulovich et al., 2018; Zahler et al., 2014).

The discussion concerning the limitation in understanding about service SMEs internationalisation, the differences between firms in the goods sector and service sector, as well as the high reliant of service firms on human capital have provided contextual understanding about the focus on human capital for service firms in internationalising. While there are many factors that affect IP such as business strategy, network, firm and managerial characteristics, as well as external environment (Brache & Felzensztein, 2019; Gerschewski, Rose, & Lindsay, 2015; Jin & Jung, 2016), in the context of business service firms, the focus on human capital and the factors that can enhance human capital such as dynamic capabilities and innovation are critical to ensure that innovative services can be created and competitive advantage can be attained. What more when there are studies which suggest that SMEs need to focus on building human capital to increase competitiveness (Osman & Ngah, 2016; Radulovich et al., 2018). In this regard, the literature suggests that knowledge workers in knowledge-based industries such as business service industry, can be managed by applying the knowledge-based human resource management approach rather than the traditional human resource management approach. This is because the traditional human resource management approach focuses more on managing people based on current best practices to meet current needs and less emphasis is given to nurturing and facilitating knowledge processes (Kianto, Sáenz, & Aramburu, 2017; Mendy & Rahman, 2019; Minbaeva, 2013).

After reviewing the literature, four gaps were found concerning the relationships between resources, capabilities, innovative service offerings and IP. First, investigation on antecedents of human capital was still limited. Previous studies have highlighted the role played by managerial leadership, employee sentiments, organisational culture, low employee turnover, feedback, knowledge management behaviour (Bontis & Fitz-enz, 2002; Bontis & Serenko, 2009), trust (Reychav & Sharkie, 2010) and investment in human resource management (Donate, Peña, & Sánchez de Pablo, 2016) in the development of human capital. In this regard, the traditional way of managing human resource right from the point of recruiting talents, providing training, performance assessment, and compensation is seen as inadequate to support value creation processes owing to its lack of emphasis in supporting knowledge behaviours of employees (Kianto et al., 2017). This points towards the importance of instituting human resource

management that is anchored on knowledge in all human resource management activities to support value creation processes and innovation (Inkinen, 2016; Mendy & Rahman, 2019; Minbaeva, 2013). However, examination into the role of knowledge-based human resource management (KBHRM) as antecedent of human capital is still very limited considering the area is still at its infancy stage (Kianto et al., 2017). In the context of business service firms, which are knowledge-intensive (Radulovich et al., 2018) and rely highly on the well-educated and highly-skilled workforce (Bunz et al., 2017), investigation into the role of knowledge-based human resource management as antecedent of human capital is pertinent. In this regard, the current study answers the call for more studies to be conducted to examine the interplay between knowledge-based human resource management, human capital, and innovation (Kianto et al., 2017). Furthermore, the focus on SMEs in the current study will also bring interesting insight to the human capital literature due to the frequent association of SMEs with their limitation of resources (Martin et al., 2017), knowledge management (Durst & Edvardsson, 2012), and innovation (Boratyńska, 2016).

Second, the outcomes of human capital among business service SMEs are still under researched. For instance, empirical evidence on the relationship between human capital and IP is still scant, particularly in the context of service SMEs (Georgiadis & Pitelis, 2012; Radulovich et al., 2018). The available researches have also shown findings that are inconclusive (Davidsson & Honig, 2003). In this regard, Radulovich et al. (2018) and Verma and Jayasimha (2014) found positive relationship between human capital and IP, while Bunz et al. (2017) and Raymond, St-Pierre, Uwizeyemungu, and Le Dinh (2014) found that human capital has indirect effect on IP. In terms of innovative service offerings, although previous literature has provided support on the notion that human capital influences innovation and is key for competitive advantage creation (Bello et al., 2016; Han & Li, 2015), other empirical evidence suggests that human capital may need to undergo training to open up their minds to be receptive of radical ideas to encourage innovation (Verma & Jayasimha, 2014). Therefore, it is not known if human capital will lead to innovative service offerings and IP in the business service SMEs' context.

Third, the mechanism in which resources such as human capital translate into innovative service offerings is also not well understood (Lonial & Carter, 2015), concordant with the view of Ray, Barney, and Muhanna (2004) that a resource in itself might not necessarily result in competitive advantage creation. Furthermore, Boon, Den Hartog, and Lepak (2019) and Boon et al. (2018) have also suggested that more studies need to be conducted to examine how variation in human capital translates into value capture and firm performance. Previous studies have mostly assumed that human capital, as well as the related process of translating human capital into innovative service offerings, are embedded in the innovative services provided (Bello et al., 2016). Although the literature has recognised the importance of dynamic capabilities in translating human capital into innovative service offerings (Bello et al., 2016), the actual factors capturing the activities of sensing, seizing and transforming have not been clearly identified (Teece, 2018). Nonetheless, the literature has provided insight that the sensing, seizing and transforming activities fit well with the concept of entrepreneurial orientation, relational capital, marketing capability, foreign market knowledge, technological capability, and innovative service offerings (Al-Aali & Teece, 2014; Teece, 2018). This is based on conceptual discussions by Al-Aali and Teece (2014) and Teece (2018) about the ability

of firms to sense and seize market opportunities by being proactive in seeking market opportunities, willing to take risks, use of technology, understanding about business environments and markets, enhance marketing efforts, focus on creating new products and services as well as building relationships with suppliers and customers. This warrants further investigation into the mediating effect of these constructs that fit the concept of dynamic capability on the human capital – innovative service offerings relationship.

Fourth, precursors of IP in terms of innovative service offerings and government facilitation, which are important for service SMEs from developing countries, have thus far not been empirically investigated (Georgiadis & Pitelis, 2012; Radulovich et al., 2018). In terms of innovative service offerings, the discussions in the existing literature were centred on knowledge transfer (Cavusgil, Calantone, & Zhao, 2003), the importance of R&D (Nijssen, Hillebrand, Vermeulen, & Kemp, 2006), network (Luk et al., 2008), market orientation (Atuahene-Gima, 1995, 2005), human capital (Bello et al., 2016) and financial outcomes from the perspective of developed countries (Luk et al., 2008; Nijssen et al., 2006). Little is understood of the effect of innovative service offerings on service SMEs' IP in the context of developing countries (Bello et al., 2016). Concerning the link between government facilitation and IP, the existing literature is saddled with mixed-bag results of positive (Lo, Chiao, & Yu, 2016; Luo, Xue, & Han, 2010; Meyer & Thaijongrak, 2013) and no effect (Kaur & Sandhu, 2014; Volchek, Jantunen, & Saarenketo, 2013). Previous researches capturing the effect of government facilitation on IP have also been viewed as lacked theoretical justification, lacked focus on individual firms, and rarely tested the simultaneous effect of the association of constructs employed (Leonidou, Palihawadana, & Theodosiou, 2011). Therefore, empirical validation concerning the relationships between innovative service offerings and government facilitation on IP is necessary for a greater understanding on the subject.

The research gaps highlighted above motivated the examination of this topic in the current study with the aim of narrowing these gaps and developing a model capable of explaining the influence of resources and capabilities on IP. In this regard, the current study answers the call made by Cavusgil and Knight (2015), Radulovich et al. (2018), Leonidou, Katsikeas, Samiee, and Aykol (2018) and Deng, Liu, Gallagher, and Wu (2018) for further investigations on the linkages involving resources, capabilities and IP, as well as how resources can be transformed to enable firms to aptly respond to market dynamics (Teece, 2014a, 2018). In relation to this, the explanatory power of the conceptual framework of the current study is expected to increase with the integration of DCV, RBT and institutional theory, taking into account the role of dynamic capabilities as mediator in the human capital – IP relationship and the influence of government facilitation on IP. The current research also answers the calls for more researches to be done to provide empirical evidence reflecting service SMEs (Radulovich et al., 2018; Ribau, Moreira, & Raposo, 2017).

1.9 Research Questions

The current research seeks to narrow the research gaps highlighted in the problem statement regarding the effect of service SMEs' internal resources, specifically human

capital, on IP. In this regard, questions abound as to the role of knowledge-based human resource management as an antecedent of human capital, and the mediating effect of dynamic capabilities namely, entrepreneurial orientation, foreign market knowledge, relational capital, marketing capability, and technological capability on the human capital – innovative service offerings relationship. In addition, the influence of innovative service offerings and government facilitation on IP are also not well understood. Therefore, the research questions for the current study are as follows:

1. Does knowledge-based human resource management directly impact the human capital of business service SMEs?
2. Does human capital directly impact the innovative service offerings and IP of business service SMEs?
3. What are the mediators between human capital – innovative service offerings relationship?
4. Do innovative service offerings and government facilitation directly impact the IP of business service SMEs?

Addressing the research questions above is pertinent as service SMEs from emerging economies have become increasingly involved with the global trade and require competitive strategies to address the internationalisation issues that they face to enable them to be successful in their international ventures (Radulovich et al., 2018).

1.10 Research Objectives

The overall goal of the current study is to examine the antecedent and outcomes of human capital in influencing the IP of business service SMEs. The specific aims of this empirical investigation are highlighted below. The summary of the research gaps, research questions, research objectives, and hypotheses of the study appear as **Table 1.1**.

1. To evaluate the relationship between knowledge-based human resource management and human capital;
2. To evaluate the relationships between human capital and innovative service offerings as well as human capital and IP;
3. To identify mediators that come in between the human capital and innovative service offerings relationship; and
4. To evaluate the relationships between innovative service offerings and IP as well as government facilitation and IP.

Table 1.1 : Summary of Research Gaps, Research Questions, Research Objectives, and Hypotheses

| Research Gaps | Research Questions | Research Objectives | Hypotheses |
|---|---|--|---|
| <p>Studies investigating the link between knowledge-based human resource management, human capital and innovation are still nascent (Kianto et al., 2017).</p> <p>The use of business service SMEs as the study context in the knowledge-based human resource management – human capital relationship is still lacking due to the greater focus on manufacturing sector (Gardó et al., 2015; Zahler et al., 2014) and the available studies on services tended to focus on large service firms from the advanced economies (Radulovich et al., 2018; Zahler et al., 2014). While the existing literature has provided understanding on the factors that drive IP of firms, it is worth noting that the competitive behaviour of small firms differ from large firms (Chen & Hambrick, 1995), the factors that affect the behaviours of firms are also different in the context of developed and developing countries (Peng, Wang, & Jiang, 2008; Yamakawa, Peng, & Deeds, 2008), and the nature of the service industry is also different from goods (Samiee, 1999).</p> <p>The outcomes of human capital among business service SMEs are still under-researched (Radulovich et al., 2018). In terms of human capital – IP relationship, scant researches have investigated this relationship, specifically in the context of service SMEs (Radulovich et al., 2018).</p> | <p>Does knowledge-based human resource management directly impact human capital?</p> <p>Does human capital directly impact innovative offerings and IP?</p> | <p>To evaluate the relationship between knowledge-based human resource management and human capital.</p> <p>To evaluate the relationship between human capital and innovative service offerings as well as human capital and IP.</p> | <p>H1: Knowledge-based human resource management is positively associated with business service SMEs’ human capital.</p> <p>H2: Human capital is positively associated with business service SMEs’ IP. H3: Human capital is positively associated with business service SMEs’ innovative service offerings.</p> |

| Research Gaps | Research Questions | Research Objectives | Hypotheses |
|--|---|---|---|
| <p>The available empirical findings also showed conflicting results in studies examining the human capital – IP link. Therefore, it is not known if the human capital – IP relationship will be significant in the context of business service SMEs.</p> <p>In terms of human capital – innovative service offerings relationship, although the human capital – innovative service offerings link has received support from previous studies (Bello et al., 2016; Han & Li, 2015), there is also evidence which shows that human capital may need to undergo trainings to open up their minds to be more receptive towards radical ideas (Verma & Jayasimha, 2014).</p> | | | |
| <p>The mechanism of how human capital translates into innovative service offerings is not well understood (Lonial & Carter, 2015). Furthermore, Boon, Den Hartog, and Lepak (2019) and Boon et al. (2018) have also suggested that more studies need to be conducted to examine how variation in human capital translates into value capture and firm performance. Previous studies assumed that human capital and the process of translating human capital into innovative service offerings are embedded in the innovative services provided (Bello et al., 2016). Previous studies have also indicated that a resource in itself might not necessarily result in competitive advantage creation (Ray et al., 2004).</p> | <p>What are the mediators between human capital and innovative service offerings?</p> | <p>To identify mediators that come in between human capital and innovative service offerings.</p> | <p>H4: Entrepreneurial orientation mediates the relationship between human capital and innovative service offerings. H4a: There is a relationship between human capital and entrepreneurial orientation. H4b: There is a relationship between entrepreneurial orientation and innovative service offerings. H5: Foreign market knowledge mediates the relationship between human capital and innovative service offerings. H5a: There is a relationship between human capital and foreign market knowledge.</p> |

| Research Gaps | Research Questions | Research Objectives | Hypotheses |
|---------------|--------------------|---------------------|---|
| | | | <p>H5b: There is a relationship between foreign market knowledge and innovative service offerings.</p> <p>H6: Relationship capital mediates the relationship between human capital and innovative service offerings.</p> <p>H6a: There is a relationship between human capital and relational capital.</p> <p>H6b: There is a relationship between relational capital and innovative service offerings.</p> <p>H7: Marketing capability mediates the relationship between human capital and innovative service offerings.</p> <p>H7a: There is a relationship between human capital and marketing capability.</p> <p>H7b: There is a relationship between marketing capability and innovative service offerings.</p> <p>H8: Technological capability mediates the relationship between human capital and innovative service offerings.</p> <p>H8a: There is a relationship between human capital and technological capability.</p> <p>H8b: There is a relationship between technological capability and innovative service offerings.</p> |

| | | | |
|---|--|--|---|
| <p>The precursors of IP in terms of innovative service offerings and government facilitation, which are important for service SMEs from developing countries, have thus far not been empirically investigated. The link between innovative service offerings and IP has been mostly based on empirical evidence from developed countries (Bello et al., 2016). Hence, it is still not well understood if innovative service offerings will contribute to IP within the context of developing countries and business service SMEs.</p> <p>Studies on the role of government in facilitating the internationalisation of firms are saddled with mixed-bag results of positive and no effect. In addition, previous studies examining the effect of government facilitation on IP have been regarded as lacked theoretical justification, lacked focus on individual firms, and rarely tested the simultaneous effect of the association of constructs employed (Leonidou et al., 2011). Hence, the influence of government facilitation on IP is still not well understood.</p> | <p>Do innovative service offerings and government facilitation directly impact IP?</p> | <p>To evaluate the relationship between innovative service offerings and IP as well as government facilitation and IP.</p> | <p>H9: Innovative service offerings are positively associated with IP. H10: Government facilitation is positively associated with IP.</p> |
|---|--|--|---|

1.11 Significance of the Study

The current study is significant from the standpoints of theory, namely RBT, DCV and institutional theory, as well as managerial application and policy. Theoretically, the current research bridges the literature gap in RBT by providing evidence pertaining to knowledge-based human resource management as an antecedent of human capital considering the area is still nascent and underdeveloped (Kianto et al., 2017). This will provide greater comprehension of the key role played by knowledge-based human resource management, particularly within the context of business service SMEs which are people-oriented and knowledge-based (Bontis, 1998; Holmlund et al., 2016; Vargo & Lusch, 2004) in recruiting and developing human capital that will contribute to sustained growth and performance (Martineau & Pastoriza, 2016; Radulovich et al., 2018). Furthermore, the focus on SMEs also brings exciting insight to the human capital literature as SMEs are usually associated with their limitations of resources (Martin et al., 2017), knowledge management (Durst & Edvardsson, 2012), and innovation (Boratyńska, 2016), which may not satisfy the key assumption of RBT pertaining to the importance of resources and capabilities in competitive advantage creation.

The present study also extends understanding on SME internationalisation by investigating the human capital – IP relationship. This is pertinent as previous researches investigating the relationship between human capital and IP have yielded inconclusive results of positive and direct relationship (Radulovich et al., 2018; Verma & Jayasimha, 2014), indirect relationship (Bunz et al., 2017; Raymond et al., 2014), and no effect (Ray et al., 2004). Therefore, the current research is at an opportune juncture to narrow this chasm and provide greater understanding on the relationship between human capital and IP, by taking into account the experience of business service SMEs from an emerging country. Furthermore, the current research also answers the calls for greater understanding of the relationship between resources, capabilities and IP (Bello et al., 2016; Radulovich et al., 2018).

The current study contributes to the discussion by shedding lights on how human capital can be turned into innovative service offerings by investigating the mediating effect of dynamic capabilities on the human capital – innovative service offerings link. The role of dynamic capability entails the need for firms to build and hone their entrepreneurial orientation, foreign market knowledge, relational capital, marketing capability and technological capability that will contribute to the creation of innovative service offerings, which will result in superior IP. Responding to the call made by Deng et al. (2018) and Ray et al. (2004) who were sanguine that a resource in itself will not contribute to competitive advantage and calls for greater understanding of the mechanism that leads human capital to competitive advantage, the current research extends DCV by using entrepreneurial orientation, foreign market knowledge, relational capital, marketing capability, technological capability, and innovative service offerings as the operational constructs of DCV which mediate the human capital – innovative service offerings relationship.

In terms of the precursors of IP, previous studies have provided insight pertaining to the importance of innovative service offerings in creating financial performance (Luk et al., 2008; Nijssen et al., 2006). In relation to this, the use of business service SMEs from Malaysia as the study context makes the study more interesting as the evidence in the literature on innovative service offerings – IP relationship has been based, mostly on the context of firms from the developed economies (Bello et al., 2016) and manufacturing firms (Gardó et al., 2015; Zahler et al., 2014). Concerning the role of government facilitation in influencing IP, current understanding on the matter will be broadened by drawing on the institutional theory which provides the theoretical basis in explaining the government facilitation – IP relationship. This is pertinent in light of the view of Leonidou et al. (2011) that the existing literature capturing the effect of government facilitation on firms' IP lacked theoretical justification, lacked focus on individual firms, and rarely tested the simultaneous effect of the association of constructs employed.

The current research also provides managerial applicability by creating awareness among industry players of the importance of having knowledge-based human resource management to ensure that they get the right human capital who are knowledgeable, capable, skilful, creative and experienced to obtain competitive advantage. In this regard, firms need to institute knowledge-based human resource management in their organisation covering the whole spectrum of human resource management processes. For instance, Firms need to take into account the relevant expertise and learning ability in the recruitment process, design a tailored training plan for employees based on their specific needs, consider the creation of new knowledge and sharing of knowledge in performance assessment, as well as reward employees for sharing, creating, and applying knowledge.

However, the implementation of knowledge-based human resource management is just the first step as what is more critical for these SMEs is to build firm-specific dynamic capabilities to enhance their competitive edge in any market, including those that transcend their national boundaries. In this regard, the SMEs need to build their human capital by investing in various activities that are dynamic in nature, particularly entrepreneurial orientation, foreign market knowledge, marketing capability, technological capability, and innovative service offerings. In developing entrepreneurial orientation, the SMEs may need to create an internal environment that is supportive of entrepreneurial orientation to ensure that their employees are innovative, proactive, and willing to take risks in generating ideas that will lead to the creation of innovative service offerings. In terms of foreign market knowledge, the SMEs may need to encourage their employees to obtain foreign market knowledge, either through trainings that are organised internally, or those that are sourced externally. Understanding foreign market knowledge will then facilitate the employees of the SMEs in understanding the needs of customers and come up with innovative service offerings.

With regard to marketing capability, the SMEs need to give attention to facilitate the process of equipping their human capital with knowledge and understanding about the overall ecosystem of their business environment including in areas concerning customers, competitors, and institutional settings that will lead to innovative service offerings. In terms of technological capability, the SMEs need to build their capability

surrounding technological capability by investing in new technologies and be open to new technologies that are available in the market. This will help the SMEs to generate innovative ideas that will lead to innovative service offerings.

The SMEs need to also give emphasis on innovative service offerings creation as it is key for them in meeting the changing needs of customers as well as attracting new ones. This is particularly crucial as innovative service offerings is associated with services that are of high quality, innovative, and unique from those provided by competitors. The creation of innovative service offerings will then contribute to competitive advantage that will lead to greater IP for the SMEs.

From the policy perspective, the current study informs policymakers of the specific areas that they can do to facilitate the international expansion of SMEs. These include the formulation of new policies or tweaking the existing ones to create an environment that is conducive for business service SMEs to build resources and capabilities so the SMEs could compete in foreign markets successfully. The emphasis on service SMEs' IP also runs parallel with the policy focus of governments from across the world including Malaysia, in promoting the internationalisation of domestically produced goods and services (Pinho & Martins, 2010).

1.12 Scope of the Study

The discussions covered in the previous paragraphs point towards the importance of internationalisation for firms and countries owing to its eventual impact on the economy and overall trade account balance. While the factors that influence the services trade balance are multifaceted and involve various stakeholders such as government agencies, industry bodies as well as the service firms, the current research focuses on the perspective of firms. In this regard, the study is scoped by concentrating on business service SMEs from Malaysia and the factors that drive their IP in line with the main objective of the current study.

First, the context of business service SMEs from Malaysia is chosen because of its importance in contributing to Malaysia's economic growth including in the aspect of export, whereby the industry contributed RM28 billion in 2018 (DOSM, 2019e). Although registering promising export value, the industry is facing challenges in exporting such as lack of capacity to adopt technology, lack capability to compete, and lack of talents (EPU, 2015a). Business service firms also lack financial strength, lack understanding of business culture in export markets, and are risk averse (The Star, 2017). Business service SMEs' increasing involvement in venturing abroad as well as the challenges that they face in internationalising justify the current study's focus on investigating the factors that drive IP among business service SMEs from Malaysia. In this regard, the definition of service SMEs is based on the definition by SME Corp involving business service SMEs employing not more than 75 employees and recorded yearly sales turnover of not more than RM20 million (SME Corp., 2013).

Second, the current study seeks to investigate the antecedent and outcomes of human capital in enhancing business service SMEs IP as these SMEs are asset-light and rely highly on human capital in the production and delivery of services rather than other types of resources such as plants and machinery (Georgiadis & Pitelis, 2012). The focus on human capital is based on the pivotal role played by human capital as a resource that is available to business service SMEs, which can be used to address any shortcomings of other types of resources (Brush & Chaganti, 1996). The findings from the current study's preliminary qualitative study which is deliberated at length in Chapter 3 also suggests that human capital is key, as it is unanimously mentioned by all informants.

Third, this study focuses on knowledge-based human resource management as an antecedent of human capital in light of the knowledge-based nature of business service firms, which may require a more customised human resource management practices emphasising on knowledge processes across the whole spectrum of human resource management activities right from recruitment and selection, training and development, performance assessment, and compensation (Delery & Roumpi, 2017; Inkinen, 2016; Kianto et al., 2017). This justifies the merit of focusing on knowledge-based human resource management as the traditional human resource management focuses more on managing people using existing best practices to meet current needs and not purposefully designed to facilitate knowledge processes (Mendy & Rahman, 2019).

Fourth, the study is also guided by existing literature that human capital needs to be equipped with dynamic capabilities to enable them to better sense and seize international market opportunities (Teece, 2018; Teece et al., 1997). However, the actual dimensions of dynamic capabilities have not been clearly identified and the discussion thus far has only covered the latent constructs involving sensing, seizing, and transforming capabilities (Al-Aali & Teece, 2014; Teece, 2018). Nonetheless, the existing literature has conceptually discussed that the capabilities to sense and seize market opportunities require internationalising firms to be proactive and willing to take risks, which corresponds with entrepreneurial orientation (Al-Aali & Teece, 2014; Teece, 2018). In addition, firms need to gain understanding of foreign markets, explore technology, build network, as well as align the products and offerings with the changing circumstances surrounding customers, competitors, technology and environment (Al-Aali & Teece, 2014; Teece, 2018; Weerawardena, 2014). These essentially reflect foreign market knowledge, technological capability, relational capital, and marketing capability as the dimensions of dynamic capabilities which justify the inclusion of these variables in the current study.

Fifth, existing literature suggests that providing innovative services is key in ensuring growth and performance (Prajogo & Oke, 2016). This view has also been corroborated with the current study's preliminary qualitative findings which suggest that innovative service offerings are key for enhancing IP. However, Malaysian SMEs in general, including those in the business service industry, undertook little innovation (OECD, 2017), which necessitate further investigation into the area. Sixth, the current study focuses on government facilitation as one of the factors that drive the IP of business service SMEs from Malaysia in light of the view of Chang, Jack, and Webster (2017), Luo et al. (2010), and Peng et al. (2008) who suggested that government facilitation is

key for firms in their international endeavour. This view is also supported by the findings of the preliminary study pertaining to the importance of government support programmes for internationalising business service SMEs from Malaysia.

1.13 Organisation of the Thesis

The organisation of chapters in this thesis is as follows:

Chapter 1 provides a contextual setting for the study as well as the problem statement, research questions, research objectives, anticipated contributions, and the scope of the study.

Chapter 2 covers an assessment of existing literature pertaining to theories of internationalisation and IP that will inform the study on the appropriate theories to be employed as well as identifying the literature gaps concerning the phenomenon of interest.

Chapter 3 deliberates the qualitative preliminary study, which was implemented to validate the variables identified from the literature and to identify potential variables that can be included in the conceptual framework.

Chapter 4 discusses the conceptual framework, the development of hypotheses, as well as the anticipated relationships between independent, mediating, and dependent variables.

Chapter 5 highlights the methodology employed for the current study as well as procedures for collecting and analysing data.

Chapter 6 discusses the results of the data analysis and links the findings of the study with the hypotheses which have been developed.

Chapter 7 discusses the findings of the study, theoretical and managerial implications, limitations of the study, recommendations for future studies, as well as the conclusion of the chapter.

1.14 Operational Definition

The definition of the main constructs employed in the current study are adopted from previous studies. The operational definitions of the main variables are listed in **Table 1.2**.

Table 1.2 : Operational Definition of Key Constructs

| No. | Construct | Author (Year) | Definition |
|-----|---|---|---|
| 1. | Knowledge-based human resource management | Inkinen (2015) and Kianto et al. (2017) | Knowledge-based human resource management as HRM practices that are centred on knowledge. It includes purposefully designed practices involving recruitment, training and development, evaluation, and reward systems which supports employees' knowledge-based behaviours. |
| 2. | Human capital | Subramaniam and Youndt (2005) | Reflects the quality of the individuals in an organisation pertaining to their knowledge, abilities, skills, experience, and creativity. |
| 3. | Entrepreneurial orientation | Lumpkin and Dess (1996) | The inclination of individuals in an organisation towards innovation, risk-taking, and proactive in securing competitive advantage. |
| 4. | Relational capital | Luo, Hsu, and Liu (2008); Morgan, Vorhies, and Schlegelmilch (2006) | The ownership of existing relationships and ties with customers, distributors, and government. |
| 5. | Foreign market knowledge | Zhou (2007) | Knowledge about foreign markets which include aspects such as host countries' business environment, customers, competitors, and market structure. |
| 6. | Marketing capability | Krasnikov and Jayachandran (2008) | Firms' ability to orchestrate their resources and capabilities to respond to the needs of the customers ahead of their competitors and deliver products or services that are desirable to customers. |
| 7. | Technological capability | Afuah (2002) | Technological resources owned by a firm which are leveraged to create new offerings that are desirable. |
| 8. | Innovative service offerings | Bello et al. (2016) | The offerings that are new or enhanced that meet customers' demand. |

| No. | Construct | Author (Year) | Definition |
|-----|---------------------------|--|--|
| 9. | Government facilitation | Leonidou et al. (2011); Lo et al. (2016) | Refers to support policies and regulations instituted by governments which form the macro-environment that businesses operate. It involves support programmes and assistance to firms to improve their performance in international markets. |
| 10. | International performance | Katsikeas, Piercy, and Ioannidis (1996) | Performance in international markets involving dimensions that are objective (e.g. revenue, growth and market share) and subjective (e.g. whether or not a firm achieve their international objectives). |

1.15 Chapter Summary

The discussion in the current chapter is aimed at drawing the attention of potential readers as to the merit of conducting the present research, taking into account the industry and the literature gaps, as well as the importance of IP for business service SMEs and countries. The chapter that follows will review the literature pertaining to the phenomenon of interest in the current study.

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