

**STRATEGIC AMBIDEXTERITY AS THE  
CORE STRATEGY TO ENHANCE  
INTERNATIONALIZATION  
PERFORMANCE OF HERBAL-BASED  
SMEs IN MALAYSIA**

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PERFORMANCE OF HERBAL-BASED SMEs IN  
MALAYSIA**

**by**

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## LIST OF ABBREVIATION

3GBEF (2009)	The Third Global Bio-Herbs Economic Forum
3IMP (2006-2020)	Third Industrial Master Plan (2006-2020)
EPP	Entry Points Project
EPS	Earnings per Share
ETP	Economic Transformation Program (2011; 2012)
GDP	Gross Domestic Product
HbSMEs	Herbal-based Small and Medium Enterprises
MARA	Majlis Amanah Rakyat
MARDI	Institute Penyelidikan dan Kemajuan Pertanian Malaysia
MECD	Ministry of Entrepreneur and Cooperative Development
NBP (2004)	National Biotechnology Policy (2004)
NFTS (2012)	National Food Technology Seminar (2012)
NKEA	National Key Economy Area
NPM	Net Profit Margin
NSDC	National SMEs Development Council
OECD	Organization for Economic Cooperation and Development
R&D	Research and Development
ROE	Return on Equity
ROI	Return on Investment
ROS	Return on Sales
SIBOH (2011)	Symposium of Investment and Business Opportunities in the Herbal Based Industry (2011)
SME Corp.	SME Corporation
SMEIPA (2010)	SME Integrated Plan of Action, 2010
SMEs	Small and Medium Enterprises

SMIDEC

Small and Medium Industries Development Corporation



**STRATEGIK AMBIDEKSTERITI SEBAGAI STRATEGI TERAS UNTUK  
MENINGKATKAN PRESTASI PENGANTARABANGSAAN PERUSAHAAN  
KECIL DAN SEDERHANA BERASASKAN HERBA DI MALAYSIA**

**ABSTRAK**

Kajian ini meneliti kepentingan strategik ambideksteriti dalam konteks perusahaan kecil dan sederhana berasaskan produk herba (PKSH) di Malaysia yang telah menembusi pasaran antarabangsa dan bagaimana strategik ambideksteriti boleh meningkatkan prestasi pengantarabangsaan daripada perspektif keupayaan dinamik. Kajian ini turut menyiasat faktor yang mempengaruhi strategik ambideksteriti, iaitu orientasi keusahawanan antarabangsa, modal insan dan orientasi pasaran di kalangan usahawan. Di samping itu, kajian meneliti bagaimana rangkaian perhubungan berfungsi sebagai moderator di antara strategik ambideksteriti dan prestasi pengantarabangsaan. Data dikumpulkan daripada 103 PKSH melalui kaji selidik yang dibina berdasarkan tinjauan literature dan telah dipra-uji oleh pengusaha PKSH dan ahli akademik. Data dianalisa menggunakan Partial-Least Square-Structural Equation Modeling menggunakan perisian SmartPLS. Dapatan kajian menunjukkan strategik ambideksteriti dari segi inovasi bukan teknologi ambideksteriti memberi impak positif ke atas prestasi pengantarabangsaan PKSH (prestasi bukan kewangan). Bagi hubungan antara orientasi keusahawanan antarabangsa dan strategik ambideksteriti, sikap proaktif memberi kesan penting yang positif ke atas inovasi teknologi ambideksteriti khususnya, manakala inovasi and proaktif memberi kesan positif ke atas inovasi bukan teknologi ambideksteriti. Modal insan, khususnya dari segi modal insan memberi kesan positif ke atas pembentukan inovasi teknologi ambideksteriti dan inovasi bukan teknologi ambideksteriti. Kajian ini juga mendapati orientasi pasaran dari segi orientasi pelanggan merupakan faktor penting ke atas inovasi teknologi ambideksteriti. Di

samping itu, orientasi pelanggan dan membina nilai pelanggan memberi impak kepada inovasi bukan teknologi ambideksteriti. Sumbangan terhadap teori dan praktikal hasil penyelidikan ini juga dihuraikan. Kelemahan dalam kajian ini juga dibincangkan dan cadangan untuk kajian akan datang dijelaskan.

# **STRATEGIC AMBIDEXTERITY AS THE CORE STRATEGY TO ENHANCE INTERNATIONALIZATION PERFORMANCE OF HERBAL- BASED SMEs IN MALAYSIA**

## **ABSTRACT**

This research examined the relevance of strategic ambidexterity in the context of internationally operated herbal-based SMEs (HbSMEs) in Malaysia and how could strategic ambidexterity enhance HbSMEs internationalization performance from the dynamic capability perspective. This research also investigated factors affecting the establishment of ambidextrous HbSMEs i.e., international entrepreneurial orientation, human capital and market orientation. In addition, it examined how networking relationship moderate the relationship between strategic ambidexterity and internationalization performance. Data was collected from 103 HbSMEs via survey questionnaire developed from related literature and pre-tested by HbSMEs entrepreneurs and academic experts. The data was analyzed using partial least square-structural equation modelling (PLS-SEM) via SmartPLS. Findings indicated that strategic ambidexterity in term of non-technological innovation ambidexterity significantly and positively affected HbSMEs internationalization performance (operational performance). As for the relationship between international entrepreneurial orientation and strategic ambidexterity, proactiveness orientation in particular was found significantly and positively related to technological innovation ambidexterity, while innovativeness and proactiveness were reported as significant and positive factors affecting non-technological innovation ambidexterity. Human capital, specifically in term of specific human capital was found significant in positive direction to explain the establishment of HbSMEs technological and non-technological innovation ambidexterity. This study also indicated that market orientation in term of customer orientation was significant in determining

technological innovation capability. On the other hand, both customer orientation and customer value creation were critical for the establishment of non-technological innovation ambidexterity. Theoretical and practical contributions of the research findings were elaborated. Limitations of the research were discussed and suggestions for future research were also offered.

## **CHAPTER 1**

### **INTRODUCTION**

#### **1.1 INTRODUCTION**

In the mainstream of international business, studies have demonstrated an uprising interest in research related to SMEs performance in foreign country. Such development is particularly due to the impact of globalization that offers a vast array of valuable and rewarding untapped business opportunities for small businesses. Globalization evidently has transformed the world into a huge and borderless marketplace. Overcoming restricted market size in the homeland, globalization is now can be contemplated as a platform for small and medium scale industries to boost their business achievements. Despite the fact that foreign business expansion renders SMEs to unique business challenges, SMEs in general are of the view that internationalization activities create positive returns for the firms (Hashim, 2005; 2007). On the other hand, globalization indeed has increased the role of SMEs as a mechanism to create job opportunities, to increase trade, and to stimulate the economic growth of a nation (Indarti & Langenderg, 2004; Saleh & Ndubisi 2006; Okpara, 2008; Ahmad et al., 2010a).

Provided that SMEs business achievement and sustainability in the global market would enormously affect the economic growth and social well-being of a country (Hashim, 2005; 2007; SME Masterplan, 2012-2020), examining the critical factors for SMEs success in international marketplace is essentially significant. Putting this into context, SMEs in Malaysia have been identified as the main agents in transforming the country into an advanced and developed nation by 2020 (SME Masterplan, 2012-2020). In fact, SMEs are said to be the “shock-absorber” entities in

the times of turmoil economic condition (Wiboonchutikula, 2002). Literature has revealed some equivocal findings as to the determinants of SMEs performance in the foreign market. Divergent analysis emerged, with some studies exemplified business internationalization performance on business internal environment (i.e., entrepreneur and firm-related factors) whereas others advocates on the consequence of external factor (i.e., trade and non-trade barriers, business policy, cultural factors, financial support and provision of physical infrastructure). Although external factor has been used to explain the achievement and sustainability of internationally operated SMEs (OECD, 2006; Singh et al. 2010), the internal environments have been largely recognized as the key survival toolkit to explicate the performance of internationally operated SMEs (OECD, 2006; Hutchinson et al., 2009). Nevertheless, extensive and in-depth explorations of the studies on internal capabilities and its impact on SMEs internationalization performance have somewhat indicated that research on the subject matter is still far from conclusive (Johansen & Knight, 2010).

Currently, in the dynamic and competitive business landscape, SMEs can no longer bear to disregard the importance of internationalization agenda. As highlighted by Rowden (2001), an important issue that needs to be pondered upon by SMEs entrepreneurs is *“If I don’t expand my operation internationally, will I survive in the long run?”*. Though the question was raised a decade ago, it remains a valid question to be explored as the complexity to operate internationally is a well-known fact particularly, from the context of SMEs in developing country like Malaysia. OECD (2004) signifies that three out of five newly established SMEs fail to continue their business within five years of their operations. In Malaysia, small and medium firms indicates higher proportion of business failure as compared to the big and established

business firms, in which 42 percent of these entities have failed in their operation as of 2005 (SME Masterplan, 2012-2020). As noted by Zahra et al. (2006) *“to certify SMEs successful changes for business growth, the skills and competencies of these business firms have to be improved and new dynamic capability are to be constructed”*. Thus, the issue that needs to be addressed here is; which dynamic capability can be utilized as the source of competitive advantage for internationally operated SMEs? In providing answer to this issue, the thesis concurs with Han (2005) and Prange and Verdier (2011) who contend, international ambidexterity is supposed to absolutely create a positive impact on the growth and survival of internationally operated business firms. Based on the following justification, the interface between strategic management and internationalization subject matters is seen as a practical answer to the question to be raised.

The major contention of this study is that strategic ambidexterity will enhance the likelihood of SMEs succeeding in its internationalization activity. Strategic ambidexterity explains the capability to *“exploit existing competencies in response to the steady business environment while simultaneously or subsequently explore new competencies in response to the changing business environment”* (March 1991; Tushman & O’Reilly, 1996; Han, 2005). Generally, strategic ambidexterity is outlined based on the view of *“resource-based approach and specifically referred within the dynamic capability view”* (Venkatraman et al., 2009). The dynamic capability view is an approach that addressed *“wealth creation in regimes of rapid technological change depends in large measure on honing internal technological, organizational, and managerial processes inside the firm to address rapidly changing business environment”* (Teece et al., 1997). Therefore, although it has been

complicated to elucidate why some SMEs fails while others perform successfully in their business ventures abroad; it is thought that focusing on the internal capability of business firms i.e., strategic ambidexterity proposes a practical and realistic view in describing this scenario.

Studies focusing on strategic ambidexterity and SMEs internationalization performance are largely limited. Within the number of studies that mull over the consequence of strategic ambidexterity on firm performance, most studies focus on ambidexterity in innovation capability among domestic operated SMEs (Lubatkin et al., 2006; Wulf et al., 2010; Chang et al., 2011; Voss & Voss, 2013). The scenario has promoted new subject among researchers, in which it directs the researchers to expand the idea by looking from the perspective of internationally operated SMEs. Innovation capability has been highlighted as a critical component of strategic ambidexterity for business growth and survival (see for example, Gibson & Birkinshaw, 2004; O'Reilly & Tushman, 2004; Lubatkin et al., 2006; Venkatraman et al., 2009; Wulf et al., 2010; Chang et al., 2011). Unfortunately, only little information and empirical research is available explaining the individual impact of technological and non-technological innovation as the dimension of strategic ambidexterity on internationalization performance. Therefore, since the existing studies measure strategic ambidexterity in innovation capability as an aggregate dimension, research that examines the contribution of distinctive types of strategic ambidexterity in innovation capability is worthwhile to be executed. As effort in developing a model explaining the relationship between strategic ambidexterity and the internationalization performance of SMEs is still far from conclusive, there is apparently a need for more investigation in this area.



It is essential to clarify that this study primarily concentrates on the development of herbal-based industry in Malaysia since this industry has been earmarked as a promising sector to boost the economy growth of the country. As elaborated at length in Section 1.2.2, the market value of the global herbal industry is expected to increase to RM17.7 trillion in 2050 (3GBEF, 2009; SIBOH, 2011). On the other hand, at the national level, the value of this industry is expected to reach RM29 billion by 2020 (SIBOH, 2011; NFTS, 2012). In fact, the Malaysian herbal industry is expected to record growth at the rate of 10-15 percent per annum (3GBEF, 2009; SIBOH, 2011), to offer 1800 new employment opportunities and to create 300 new herbal-based entrepreneurs by 2020 (NFTS, 2012). Against this backdrop, the present study aims to observe the extent to which strategic innovation ambidexterity would affect internationally operated HbSMEs. In brief, this research strives to address the call made by Han (2005) and Prange and Verdier (2011) in conducting research related to strategic ambidexterity at the international context, by means of scrutinizing the relationship between ambidexterity in technological and non-technological innovation capacity and the performance of internationally operated HbSMEs.

## **1.2 RESEARCH BACKGROUND**

### **1.2.1 SMEs, Economic Growth and Business Internationalization**

SMEs are viewed as the central units to stimulate long-term development of the economy in many developing nations (Hashim, 2005). In general, as SMEs accounted for more than 90 percent of the number of businesses (Tung & Aycan, 2008), these firms definitely play instrumental roles in generating new job opportunities, stimulate the volume of trade, and increase the GDP of the developing

nations (Indarti & Langenderg, 2004; Saleh & Ndubisi 2006; Okpara, 2008; Ahmad et al., 2010a). SMEs in brief are portrayed to play significant role in creating wealth for these countries. In fact, the Malaysian government preserves SMEs as critical instruments in transforming the country into a high income and developed economy by 2020 (SME Masterplan, 2012-2020). Moving in the direction to be a developed country, 41 percent of the Malaysian GDP is forecasted to be generated by SMEs (SME Masterplan, 2012-2020). In the latest report, SMEs in Malaysia share about 31 percent of the country's total GDP (SME Annual Report 2009/2010). However, this fact is still disappointing as SMEs were targeted to share at least about 37 percent of the country's GDP in 2010 (SME Annual Report 2009/2010). Essentially, the contribution of the homegrown SMEs to the GDP of the nation is relatively low as compared to the GDP recorded by small and medium scale businesses in other nations. A report released in SME Annual Report (2009/2010) indicates that in Japan and Germany respectively, SMEs share 53 percent of the countries' GDP, in Korea and Singapore the share is 49 percent respectively and in Thailand the share is 38 percent. Appendix A portrays SMEs share to GDP in few countries.

Since SMEs in Malaysia composed of 97.3 percent from 662 939 units of total number of business firms established in the country (SME Annual Report 2011/2012), these entities have been recognized continuously in creating new career opportunities for the nation. In 2010, SMEs generate 56 percent of the total employment rate (SME Annual Report 2009/2010) with standard annual earnings of RM18 335 per worker (SME Annual Report 2011/2012). Nevertheless, this achievement is still lower than the number of employment opportunities created by SMEs in other countries. For instance, currently, SMEs in Korea chip in more than

80 percent to the country's employment rate, 80 percent in Taiwan, 70 percent in Germany, and 60 percent in Japan (SME Annual Report 2011/2012). Inspired to be a high-income economy by 2020, the Malaysian government has aimed the homegrown SMEs to create at least 62 percent of new job opportunities in various sectors for the nation (SME Masterplan, 2012-2020). Appendix B demonstrates the rate of total employment offered by SMEs in Malaysia and few other countries.

Finally, since globalization is claimed to provide greater access for businesses to discover new prospect in the overseas markets (Gunaratne, 2009), SMEs involvement in economy activity can be estimated by looking at their business participations in international business activity. Globalization has in fact, encouraged the internationalization of SMEs (Chelliah et al., 2010b) as it provides options for these small and medium entities particularly if the home market turns to be saturated. However, business internationalization is not lacking in term of distinctive challenges. It renders SMEs to complicated position i.e., limited knowledge and information in international business activity, restricted firms' capabilities, limited assets and other external environmental forces that may affect SMEs business performance. Yet, these circumstances have not restricted SMEs from internationalization activity. Many have put their agreements in business internationalization since this activity is claimed to offer a great potential in generating positive outcomes not only to the firms but also to the nation (Hashim, 2005; 2007; Ruzzier et al., 2007).

Based on the present scenario, SMEs are expected to persistently generate significant contribution in developing the Malaysian market. The internationalization of the homegrown SMEs can be considered as a mechanism that may further stimulate the

growth of the country. Therefore, due to this development, the government has been providing continuous supports to encourage internationalization activity among SMEs. As a developing nation, this segment is basically critical to realize the inspiration in transforming Malaysia into a high-income and developed nation by 2020.

### **1.2.2 The National Government Plan: The Realization of Global Champion SMEs in Herbal-based Sector**

Considering SMEs instrumental roles in creating prosperity for the nation, a variety of development programs have been established in supporting the transformation of the homegrown SMEs into champions at the regional and international markets. A vast array of mechanism i.e., training, trade mission, branding initiatives, advisory service and even funding are offered to realize the internationalization agenda. The enthusiasm in transforming the homegrown into global champions SMEs are explained visibly in the Malaysian economic policies and development plans i.e., the Five-year Malaysia Plan, Third Industrial Master Plan (2006-2020), SMEs Integrated Plan of Action (2010) and SME Masterplan (2012-2020). Among others, the documents are primarily designed to further enhance the role of the homegrown SMEs in constructing prosperity and social well-being of the country through the creation of competitive and resilient SMEs in the dynamic nature of international business environment.

As such, one of the promising industries to be promoted for overseas market is HbSMEs (3IMP, 2006-2020; SIBOH, 2011). The plan of action can be read clearly in the ETP (2011; 2012). At present, the global demand for herbal-based products is growing steadily in the international market, as people are gradually more conscious

on the disadvantages of consuming artificial drugs and the high cost of drugs sold in the market (Euromonitor International, 2011). The value of herbal product in the world market for 2009 is RM708 billion (3GBEF, 2009), in which it indicates an increase from RM89 billion in 2002 (GlobinMed, 2010-2011), and forecasted to record RM2 trillion by 2020 (NFTS, 2012) with estimated value of RM17.7 trillion in 2050 (3GBEF, 2009; SIBOH, 2011). Malaysia, being one of the most bio-diverse countries in the world has a lot to achieve from the strong growth of international herbal market. Out of 15 000 species of plants available in the Malaysian tropical forest, 2 000 of the species have been recognized as herbal with high commercial and medicinal values (MARDI, 2008), which can be used as additives, aesthetic composition, diseases treatment, or even to boost up individuals' wellbeing (Abd Aziz, 2003). Given the variation, the richness and uniqueness in its biodiversity, Malaysia is forecasted to be the global champion of international herbal industry (3GBEF, 2009; ETP, 2011; ETP, 2012).

This scenario has actually inspired the government to focus on the homegrown HbSMEs as one of the key strategic sectors in transforming Malaysia into a developed nation (SIBOH, 2011; ETP, 2011; ETP, 2012). Indeed, the local herbal industry is growing steadily. In 2010, the industry has contributed about RM9 billion in comparison to only RM4.5 billion in 2005 (3GBEF, 2009). Unfortunately, the value is still far below the aim to bring the country as the major player in the international herbal industry since the fact unveils – in spite of variation in herbal plants exists in its natural rainforest; Malaysia in fact is still the net importer of herbal products (Berita IDS, 2002). The report reveals that only 50 types of herbal vegetation have been exploited commercially (Abd Aziz, 2003). This scenario

somehow explains the development of local herbal industry is still depressing particularly, when compared with China herbal industry that has recorded a total export volume of USD10 billion in 2006 (Srinivasan, 2006). Indeed, the fact signifies that the achievement of internationally operated HbSMEs in Malaysia is relatively less encouraging. The scenario may be explicated due to the absence of effective and appropriate competencies among internationally operated HbSMEs.

### **1.2.3 Dynamic Capability and Business Internationalization Performance**

The extant literature on factors affecting the performance of internationally operated SMEs is widely discussed from two major features i.e., internal and external environment. The internal environment highlights on quality embedded within the entrepreneurs and business entities i.e., entrepreneurs' capabilities (Ahmad & Seet, 2009; Ahmad et al., 2010b) and business capabilities (Hutchinson et al., 2009; O'Cass & Weerawardena, 2009; Ahmad et al., 2010b). The external environment as stated in Albaum and Duerr (2008) refers to "*the social, economic, political and geographic aspect in a foreign or home market*". Few remarks have been done in correlating both internal and external environment with SMEs internationalization activity and performance. For instance, O'Cass and Weerawardena (2009) have confirmed that business internal environment i.e., organizational innovation serves as key predecessor for the internationalization of SMEs. On the other hand, the external environment, such as market environment (Singh et al., 2010), government program (Spence & Crick, 2006) as well as trade and non-trade limitations (OECD, 2006), have been explained as another aspects that influence SMEs involvement in internationalization activity and subsequently affects its internationalization performance.

Regardless of the fact that external factor has been highlighted to describe business achievement and sustainability of internationally operated firms (OECD, 2006; Singh et al. 2010; Amal & Filho, 2010), the internal factors are explained to be more prominent in determining business internationalization performance (OECD, 2006; Hutchinson et al., 2009). As business entities are highly recommended to execute contemporary business management strategy in response to the dynamic nature of international business environment (Hung et al., 2010), this study views dynamic capability of business firms as a critical factor for HbSMEs success in their business ventures abroad. Studies have indicated that the possession of dynamic capability is empirically critical to sustain the performance of business firms (Luo, 2000; Hung et al., 2010). Based on Tushman and O'Reilly (1996), dynamic capability is related to strategic ambidexterity, which in brief can be explained as business concurrent capability to pursue exploitation (evolutionary) and exploration (revolutionary) innovation capability for the assurance of short-term and long-term business accomplishment.

### **1.3 PROBLEM STATEMENT**

The Malaysian administration has been constantly supporting the internationalization activity of SMEs, specifically in herbal-based sector with the aim to leverage on the latest development in the global herbal market. As explained in the previous section, the principal goal is to transform the country into the hub for high-valued herbal-based products (ETP, 2011). In such situation, globalization can be measured as an avenue for HbSMEs to enhance their business performance in term of its profitability and market share, which can be realized by taking advantage on the opportunities

that are available in the foreign markets. Despite, the internationalization of HbSMEs may contribute further to the development of the Malaysian economy.

Unfortunately, even with various export expansion policies and programs, the involvement of the homegrown SMEs in international business activity is still very discouraging. Majority of the homegrown SMEs are highly dependent on the domestic market since only 25.6 percent of the outputs in manufacturing-based SMEs are exported (3IMP, 2006-2020). The three-year export data indicates from 2007 until 2010, the homegrown SMEs only share 19 percent of the country's total export volume (SME Annual Report, 2009/2010; 3IMP, 2006-2020), which is still far below the target of 22 percent that should be recorded in 2010 (National SMEs Development Blueprint, 2007). The volume is further expected to increase at least to 25 percent in 2020 to be equivalent with SMEs in the developed nations (SME Annual Report, 2009/2010). Appendix C exhibits SMEs share of total export.

On the other hand, at the regional level, SMEs share in export is considerably low as compared to the achievement made by SMEs in few ASEAN countries. SMEs in Thailand have recorded remarkable contribution with 46 percent of share in total export, the Philippines with 22 percent of share, and Vietnam 20 percent (Tambunan, 2009). In China, SMEs contribute 60 percent to the country's total export, 56 percent in Taiwan, 40 percent in India, and 25 percent in Pakistan (Tambunan, 2009). Apparently, this data portrays that the internationalization performance of the homegrown SMEs in Malaysia is still behind the achievement recorded by SMEs in other developing countries. The details are compiled in Appendix D.

The fact reveals that even though huge amount of investment have been allocated to enhance SMEs internationalization performance i.e., through government funding,



grants, training, consultative services, and export development programs, the internationalization performance of the homegrown SMEs is still dismal. For example, in IMP2 (1996-2005) the amount of soft loans and grants released to the MECD was RM209 billion and RM640 million to SMIDEC in supporting the expansion of the homegrown SMEs (3IMP, 2006-2020). In this case, it seems most likely that excessive reliance on the government programs may reduce HbSMEs competitiveness by readdressing the responsibility for business achievement on the external factors. It is well recognized that firms cannot avoid the possible external challenges that may to some extents affect the bottom line of the industry. Nevertheless, firms could on the other hand, strive to minimize the impact of such pressures and increase the likelihood of success by strengthening the internal capabilities of the firms. This contention augurs well with Manimala and Kumar (2012) who found the possession of internal capabilities is critical to sustain, survive and subsequently to increase business performances at large. The fact that indicates internal capability as a major factor contributes to business success and failure serves as a starting point for the present study to address this enquiry.

Scholars argue that strategic ambidexterity in innovation capability is critical to ensure the growth and survival of business firms (O'Reilly & Tushman, 2004; Gibson & Birkinshaw, 2004; Lubatkin et al., 2006; Wulf et al., 2010; Chang et al., 2011). Gibson and Birkinshaw (2004) have made the first attempt on the concept of strategic ambidexterity when they empirically observe that ambidextrous business unit has made remarkable contribution on the performance of multinational company. Recently, Lubatkin et al. (2006) claim that strategic ambidexterity in innovation capability is significant in determining SMEs business performance.

Other researchers have also found robust association between strategic ambidexterity and the success level of SMEs (Wulf et al., 2010; Chang et al., 2011).

Although several studies have observed positive association between strategic ambidexterity and SMEs performance, strategic ambidexterity and its relevance still can be considered as a new field of study. Conceptually, it started to gain popularity in the 90's following the suggestion made by March (1991) in their article "*Exploration and Exploitation in Organizational Learning*". Few years later, Tushman and O'Reilly (1996) wrote in their article "*Ambidextrous Organizations: Managing Evolutionary and Revolutionary Change*". While March (1991) emphasizes on incremental and radical learning as component of strategic ambidexterity, Tushman and O'Reilly (1996) associate strategic ambidexterity with simultaneous action in exploitation and exploration of innovation capability. In fact, verdicts in few studies have evidently recognized remarkable role of strategic ambidexterity in innovation capability on SMEs business performance (Lubatkin et al., 2006; Wulf et al., 2010; Chang et al., 2011; Voss & Voss, 2013).

Unfortunately, very limited attempt has been undertaken by the homegrown SMEs entrepreneurs to establish innovation capability for the enterprises. For instance, only 51 percent of Malaysian medium-sized entities and 27 percent of Malaysian small-sized entities carry out innovative activities in their business operation. In comparison, 78 percent of medium-sized entities and 68 percent of small-sized entities in Ireland carry out R&D activities and in Germany, 63 percent of medium-sized and 70 percent of small-sized entities undertake R&D activities (3IMP, 2006-2020). This aspect may clarify why SMEs in these countries have made greater contribution in developing the domestic economy. Lack of innovation capability may

justify why in 2005, 42 percent of the Malaysian homegrown SMEs have failed in their operations (SME Masterplan, 2012-2020). Evidently, the establishment of distinctive internal capability i.e., innovation capability is the central focus for SMEs in advanced and developed countries. Therefore, the cultivation and enhancement of innovation culture among SMEs is likely to be an essential activity in transforming Malaysia into a developed country as well as for the homegrown SMEs to be more competitive and resilient in international business environment.

One of the most important concerns is that - will businesses with capability in innovation ambidexterity affect the performance of internationally operated HbSMEs? Several scholars have theoretically articulated the significance of ambidexterity on internationalization business achievement (for example, Han, 2005; Prange & Verdier, 2011). Ambidexterity reads, in a stable foreign business environment firms may only call for modification on the existing product. In such condition, the focal point is merely to make small adjustment on the existing product, manufacturing process and marketing approach. In a more dynamic foreign business environment where customers demand for sophisticated product, the focus should be more on designing new product, establish new manufacturing process and execute new marketing approach for their ventures in foreign country. Rapid changes in international business setting are strongly believed to create robust impact on HbSMEs with operations in the foreign market. As such, given the dynamic nature of global business setting, instilling strategic ambidexterity among internationally operated HbSMEs is contemplated to generate positive returns for the businesses.

As highlighted in the section mentioned above, the core strategy to prosper internationally operated HbSMEs is to re-focus on the internal capability of the

firms. The dependence on government support alone may not sufficient to enhance HbSMEs internationalization performance. Here, the establishment of firm's dynamic capability i.e., strategic ambidexterity is theorized as a critical measure for business survival and profitability in the contemporary economic landscape. To date, the concept of strategic ambidexterity and its relevance on HbSMEs business internationalization success remains ambiguous. Hence, there is a need to observe empirically the importance of strategic ambidexterity on internationally operated SMEs particularly in the herbal-based sector.

It is also noted that the existing studies focus solely on the effect of ambidexterity in innovation capability without distinctively observe the different scopes of innovation. Innovation from the perspectives of O'Reilly and Tushman (2004) and O'Cass and Weerawardena (2009) should be observed from two different viewpoints, namely technological and non-technological innovation. The present study therefore views that different types of innovation ambidexterity may create unique strategic impact on the performance of small and medium-scaled business. For this reason, the study particularly aims to link the prevailing gap, by scrutinizing the different impact of strategic ambidexterity in technological and non-technological innovation capability on the performance of internationally operated HbSMEs.

By following Yu et al. (2014) and Wei et al. (2014), in HbSMEs, product innovation in term of exploitation can be assessed based on the efforts undertaken by the firms to upgrade, modify extend as well as improve the existing quality of herbal-based product, improve the flexibility of herbal-based products, reduce the production cost and material consumption, consolidate the existing manufacturing process and apply the mature technology to improve productivity. On the other hand, product

innovation in term of exploration is related to the introduction of new generation of herbal-based product from the perspective of the firm, to the market and to the world as well as extending the range of herbal-based products, entering new technology field related to herbal-based product, create major changes to herbal-based products, and achieve technological leadership. In Malaysia, since only 40 percent of SMEs focuses on new product development and 20 percent on innovation and technology, product technology development for herbal-based product can be considered as part of product innovation activity (3IMP, 2006-2020). However, due to limited capital and capability, most of SMEs innovation activities are supported by government agencies. Under Ministry of Agriculture (MOA), activities such as standardization, product development, toxicology/preclinical studies and processing technology have been conducted to ensure Malaysian herbal product comply with international standard (ETP, 2011; 2012).

On the other hand, innovation in marketing activity i.e., in term of the capability to understand customers, competitors, channel and broader market environment may reduce the uncertainty in exporting activity (Morgan et al., 2004). Market innovation in term of exploitation activity focuses on marketing programs that is designed to retain and increase sales from current customers, while market innovation from the view of exploration activity refers to marketing program that aims to attract new customers outside of the existing served market (Morgan et al., 2004; Yu et al., 2014). As for marketing activity, the government has been showing their commitment to support marketing activity among HbSMEs. The initiative involves eight anchor herbal-based companies such as Aning Resources Sdn Bhd, Biotropics Malaysia Bhd, Bioalpha International Sdn Bhd, Nova Laboratories Sdn Bhd,

Natureceuticals Sdn Bhd, Natural Wellness Biotech (M) Sdn Bhd, the Mitomasa Sdn Bhd and Phyto Biznet Sdn Bhd. The role of these companies is to spearhead marketing and branding of the local nutraceuticals and botanical herbal-based drugs with scientifically-backed claims ensuring Malaysian herbal products comply with international health standards.

In addition, ever since strategic ambidexterity is featured as a critical element in determining the performance of internationally operated company, the present study is considering the covariates that act as precursors for the establishment of strategic ambidexterity. Therefore, this study views entrepreneur-related resources as antecedents that are likely to create direct impacts on firms-related resource, namely strategic ambidexterity. In fact, these antecedents have received considerable attention in studies focusing on factors determining the internal competencies of business firms (see for example Johansen & Knight, 2010; St-Pierre & Audet, 2011; Li et al., 2008). Here, international entrepreneurial orientation is operationalized based on three elements; the extent to which entrepreneurs can be characterized as embedded with innovativeness, proactiveness and risk-taking attitude. Human capital on the other hand, is characterized based on two dimensions namely, general and specific human capital and finally, market orientation is operationalized as customer orientation and customer value creation.

Despite, the study is also determined to investigate factor that may strengthen the impact of strategic ambidexterity on HbSMEs internationalization performance. Accordingly, this study argues that the effectiveness of ambidexterity may be suppressed through networking relationship. Networking relationship assists firms by allowing them to exploit on the network contacts resources (Su et al., 2013) i.e.,

knowledge, technological capabilities and other valuable resources (Stan & Elfring, 2008). So far, Chen and Ling (2010) have concluded that networking with business and social contacts within business organization facilitate the relationship between strategic ambidexterity and organizational performance. Based on the review, the present study takes into account the role of networking to enhance the relationship between strategic ambidexterity and HbSMEs internationalization performance. In this study, networking relationship is operationalized as business and social networking.

#### **1.4 OBJECTIVES OF THE STUDY**

Based on the preceding discussion, this study hopes to explore the extent to which strategic ambidexterity affect the internationalization performance of HbSMEs. Also, the study aims to investigate factors that lead to the establishment of strategic ambidexterity in HbSMEs. In this context, the study examines the relationship between entrepreneur-related resources (i.e., international entrepreneurial orientation, human capital and market orientation) and firm-related resource (i.e., strategic ambidexterity). In addition, the moderating role of networking (i.e., business and social networking) to enhance internationalization performance of HbSMEs is also examined. Specifically, the objectives of this study are:

1. to examine the impact of strategic ambidexterity (i.e., technological and non-technological innovation ambidexterity) on HbSMEs internationalization performance (i.e., financial and operational).

2. to determine the relationship between international entrepreneurial orientation (i.e., innovativeness, proactiveness, and risk-taking attitude) and strategic ambidexterity of internationally operated HbSMEs.
3. to test the association between human capital (i.e., general and specific human capital) and strategic ambidexterity of internationally operated HbSMEs.
4. to analyze if market orientation (i.e., customer orientation and customer value creation) affects strategic ambidexterity of internationally operated HbSMEs.
5. to examine if networking moderates the relationship between strategic ambidexterity (i.e., technological and non-technological innovation) and the performance of internationally operated HbSMEs (i.e., financial and operational).

## **1.5 RESEARCH QUESTIONS**

The study predominantly seeks to ascertain the relationship between different components of strategic ambidexterity and the performance of HbSMEs operating in foreign country. Examining further, networking (i.e., business and social) is also demonstrated to enhance the association between strategic ambidexterity (i.e., technological and non-technological innovation ambidexterity) and internationalization performance (i.e., financial and operational). As well, strategic ambidexterity is to be affected by the possession of entrepreneur-related resources among HbSMEs entrepreneurs (i.e., international entrepreneurial orientation, human capital and market orientation). Accordingly, this study seeks to explore and answer the following research questions:



- (1) What is the relationship between technological and non-technological innovation ambidexterity and the internationalization performance (i.e., financial and operational) of HbSMEs?
- (2) How does international entrepreneurial orientation (i.e., innovativeness, proactiveness, and risk-taking attitude) affect technological and non-technological innovation ambidexterity of internationally operated HbSMEs?
- (3) What is the link between human capital (i.e., general and specific), technological and non-technological innovation ambidexterity of internationally operated HbSMEs?
- (4) What is the relationship between market orientation (i.e., customer orientation and customer value creation), technological and non-technological innovation ambidexterity of internationally operated HbSMEs?
- (5) Does networking (i.e., business and social networking) moderate the relationship between technological innovation ambidexterity, non-technological innovation ambidexterity and the internationalization performance (i.e., financial and operational) of HbSMEs?

## **1.6 SCOPE OF STUDY**

The study focuses on empirical verification that explains the relationship between strategic ambidexterity (i.e., technological and non-technological innovation ambidexterity) and internationalization business performance (i.e., financial and operational) among HbSMEs in Malaysia. The study is conducted to understand the predicting role of entrepreneur-related factor such as international entrepreneurial

orientation (i.e., innovativeness, proactiveness, and risk-taking attitude), human capital (i.e., general and specific human capital), and market orientation (i.e., customer orientation and customer value creation) on firm-related factor such as strategic ambidexterity. This research also examines the role of networking relationship (i.e., business and social networking) as moderator in relation to dynamism between technological and non-technological innovation ambidexterity and internationalization performance. In short, this research mainly keens to respond to the question *“Does establishing strategic ambidexterity, in terms of technological innovation ambidexterity and non-technological innovation ambidexterity in HbSMEs lead to better internationalization performance?”*.

The thesis targets international operated HbSMEs in Malaysia as the subjects of the study. The list of respondents is gathered from seven major sources. These include the 3<sup>rd</sup> edition of the Directory of Malaysian Exports of Products and Services, 43<sup>rd</sup> edition of Malaysian Industries FMM Directories, Directory of Malaysia Exporters of Halal Products and Services for 2010-2011, Directory of Halal Fiesta 2012, Directory of Malaysia Women in Export 2011, Satu Daerah Satu Industry Directory 2012, and Directory of Malaysia Tea, Coffee and Cocoa, 2011-2013. Responses are collected from HbSMEs managers who actively involved in international business activity and each of the respondent represents his/her firm when responding to the questionnaire. As this study is limited to internationally operated HbSMEs in Malaysia, the findings and the conclusions can only be used to represent the specific subjects namely, internationally operated HbSMEs.

## **1.7 SIGNIFICANCE OF THE STUDY**

In brief, this study is optimistic to investigate factors affecting the performance of HbSMEs operating in the foreign country. This study is expected to contribute to the existing literature from the theoretical and managerial perspectives.

### **1.7.1 Theoretical Contribution**

The outlook of this study holds to believe that the internal capability of business firms is the foundation in determining the internationalization performance of HbSMEs. Based on the extensive review, in the turbulent nature of the international business environment, studies have signified a positive association between dynamic capability and business achievement in the foreign market. Yet, research on this area is still scarce and only limited effort has been made in examining the association between these variables (Zahra et al., 2006; Hung et al., 2010) particularly from the perspective of internationally operated SMEs located in the developing country. From a theoretical viewpoint, the study is highly appreciated as it advances the understanding in the field of dynamic capability. In fact, the impact of strategic ambidexterity on internationalization performance has not been widely examined (Han, 2005; Prange & Verdier, 2011). Obviously, very limited attempt has been found observing its impact on the performance of SMEs in its international ventures. Moreover, the study intends to create a feasible multi-dimensional strategic ambidexterity construct based on the existing measures. Therefore, as compared to the previous studies, this study includes two different components of strategic ambidexterity in innovation capability i.e., technological and non-technological ambidexterity as dimensions that may create substantial impact on the performance of internationally operated HbSMEs.

Despite, in the research model, the relationship between strategic ambidexterity and internationalization performance is said to be enhanced with the existence of networking relationship. Although most of the studies show consistent findings between ambidexterity and business performance, considering a moderator is still acceptable since the existing studies indicate different magnitudes of strategic ambidexterity on business performance. Furthermore, none of these studies has been focusing specifically on the extent to which the relationship between strategic ambidexterity in technological and non-technological innovation capability and internationalization performance is enhanced with the establishment of networking relationship. As networking allows SMEs to leverage and promote sharing of resources among the members (Cheng & Ling, 2011), exploiting on networking resources assists HbSMEs to update their knowledge about products, manufacturing process and marketing approach that appropriate to be employed in the foreign market. This association is the foundation where the study believes networking should be treated as a moderator in this model. This research therefore, attempts to work on the networking theory, particularly on the role of networking relationship to enhance the association between strategic ambidexterity in technological and non-technological innovation capability on the performance of internationally operated HbSMEs.

Jantunen et al. (2005) explain resources only create significant impact on firms' performance if the resources are utilized to construct something new for the firms. Based on this statement, the study aims to contribute to the theory of international entrepreneurship through examining the role of this variable in shaping the internal capability of HbSMEs. Consistently, Jantunen et al. (2005), Johansen and Knight