INTERNATIONALISATION OF SERVICE-SECTOR SMALL AND MEDIUM SIZED BUSINESS TRAINING AND CONSULTANCY FIRMS IN MALAYSIA

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2018

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by

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Thesis submitted in fulfillment of the requirement for the degree of Doctor of Philosophy

August 2018

ACKNOWLEDGEMENT

Undertaking this PhD has been a truly life-changing experience for me and it would not have been possible to do without the support and guidance that I received from many people.

Firstly, I would like to express my gratitude to the management of Graduate School of Business (GSB), University Sains Malaysia for accepting me as a Ph.D student. Special thanks to the Deputy Dean, Dr Tan Cheng Ling the former Ph.D program manager, examiners and all GSB staffs for their advices and strong support during my study.

My deepest gratitude is also extended to my supervisor, Dr Christopher Richardson for the continuous support of my Ph.D study and related research, for his patience, motivation, and immense knowledge. His guidance helped me in all the time of research and writing of this thesis. Special thanks to Dr Siti Nabiha for her advice and constructive comments in this thesis.

My heartfelt thanks are also extended to the founders, top managements and employees of business training and consultancy firms and government agencies that participated in this study for their generous contribution and invaluable participation in this research.

Lastly, I would like to thank my family for all their love and encouragement. For my parents who raised me with love and supported me in all my pursuits. Most of all for

my loving, encouraging, and patient husband, Miao Fong and my lovely children, Venus and Zeus whose faithful support during this Ph.D. is so appreciated. Thank you.

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ABSTRAK

Daya globalisasi serta kemajuan teknologi maklumat dan komunikasi telah membolehkan firma perkhidmatan yang kecil dan sederhana besar (SME) mengantarabangsakan aktiviti perniagaan masing-masing pada kepantasan dan skala yang semakin meningkat. Tesis ini mengkaji pengantarabangsaan firma-firma sedemikian dari pasaran yang memuncul. Secara khususnya, tesis ini mengkaji pengantarabangsaan firma latihan dan perundingan perniagaan, serta cabaran dan keupayaannya. Pendekatan berbilang kes kajian telah diambil. Sebanyak tiga puluh satu temu bual telah dijalankan secara mendalam dengan pihak pengurusan tertinggi dan eksekutif dari lapan firma latihan dan perundingan perniagaan di Malaysia. Model Uppsala dan rangka kerja pengantarabangsaan perkhidmatan digunakan sebagai panduan teori untuk menganalisis pengantarabangsaan firma-firma ini. Jarak psikik, mod kemasukan, rangkaian perniagaan serta sumber firma dianalisis dalam kajian ini. Hasilnya mancadangkan bahawa jarak psikik, rangkaian perniagaan dan sumber firma yang disenaraikan dalam teori pengantarabangsaan menyokong perbincangan aktiviti pengantarabangsaan firma latihan dan perundingan perniagaan dari Malaysia. Walau bagaimanapun, penerangan mengenai mod kemasukan negara asing dalam Rangka Kerja Pengantarabangsaan Perkidmatan tidak sesuai untuk menerangkan aktiviti pengantarabangsaan firma latihan dan perundingan perniagaan dari Malaysia. Bahasa dan persepsi negara asal merupakan cabaran utama untuk firma latihan dan perundingan perniagaan dalam kajian ini. Keupayaan perniagaan adalah penting untuk

membentuk kelebihan daya saing bagi firma-firma dalam kajian ini semasa pengantarabangsaan. Kajian ini memberikan pandangan baru untuk pengantarabangsaan sector perkhidmatan di SMEs dari pasaran memuncul. Penggunaan teori pengantarabangsaan untuk industri latihan dan perundingan perniagaan dalam pasaran memuncul telah dikaji. Teori pengantarabangsaan tidak tepat untuk menerangkan pengantarabangsaan firma latihan dan perundingan perniagaan dalam kajian ini.

INTERNATIONALISATION OF SERVICE-SECTOR SMALL AND MEDIUM SIZED BUSINESS TRAINING AND CONSULTANCY FIRMS IN MALAYSIA

ABSTRACT

Globalisation forces and information communication technology advancements have enabled small and medium-sized (SMEs) service firms to internationalise their business activities at an ever-increasing speed and scale. This thesis explores the internationalisation of such firms from an emerging market. In particular, it studies business training and consultancy (BTC) firms' internationalisation decision making as well as their challenges and capabilities. The multiple-case study approach is adopted, and thirty-one in-depth interviews are conducted with members of the top management and executives from eight business training and consultation firms in Malaysia. The Uppsala model and the framework for service internationalisation are used as theoretical guidance to analyse the internationalisation of the firms. The entry modes, psychic distance, business network, internationalisation challenges, and business capabilities are analysed in this study. The result suggests that psychic distance, business network, and business capabilities, which are listed in internationalisation theories, explain the internationalisation of BTC firms from Malaysia. However, the discussion of entry modes in the framework of service internationalisation does not accurately explain the internationalisation of BTC firms from Malaysia. Language and country-of-origin perception are the major challenges for the BTC firms in this study. Business capabilities are important for BTCs to form a competitive advantage during their internationalisation. The study provides new insights into service internationalisation in SMEs from an emerging market. The application of internationalisation theories to the BTC industry in an emerging market is analysed and internationalisation challenges and capabilities are discovered. The internationalisation theories do not accurately explain the current internationalisation of the BTC firms in this study.

CHAPTER 1 – INTRODUCTION

Research on firm internationalisation has been a central component of the international business (IB) scholarly discourse since the 1950s, although the early studies focused mainly on large multinational enterprises (MNEs) in advanced economies, particularly the US and Western Europe (Bessant & Rush, 1995; Johanson & Vahlne, 1977; O'Mahoney & Markham, 2013). Rapid advances in information and communication technologies (ICT) and the lowering of trade barriers have enabled more and more small- and medium-sized enterprises (SMEs) from emerging markets to join their larger counterparts on the international stage. The Internet, ICT, and e-marketing have provided new opportunities for developing business abroad for firms, including service firms, from emerging markets (Skudiene et al., 2015). Research on the internationalisation of service sector SMEs from emerging markets is needed to develop and advance the industry (Argyris, 2000; Kaynak et al., 2005; Todd & Javalgi, 2007). This chapter discusses the research problem and issues concerning SMEs' internationalisation in an emerging market. The research objective, research questions, and significance of the study are included in the explanation of the research in this study. Definitions of the key terms and a summary of the chapters are presented in the final section.

1.1 Overview of Firm Internationalisation Research

The advancement of information communication technology, lower trade barriers among countries, and the integrated world economy have increased the internationalisation activities among firms. The world merchandise exports amounted to US$16 trillion in 2016 compared with US$5.2 trillion in 1995, and the world exports of commercial services in 2016 reached US$4.8 trillion (WTO, 2017). The contribution of the service sector from emerging markets to the world economy is becoming increasingly important and continuing to grow. Asia and commonwealth independent states gained an increasing share of the exports of commercial services after the declining trend in Europe, Africa, and North America (WTO, 2015). Emerging markets are nations that are experiencing rapid economic growth and political reform following market-oriented trends (Vercueil, 2012a). In this study, the country under investigation is Malaysia. In 2016, the total international trade in services in Malaysia grew by 6.5 per cent to a record RM311.7 billion (DOSM, 2017b).

IB researchers are certainly not the only group of management scientists who have investigated the internationalisation of firms. Scholars from a wide range of management disciplines have shown growing interest in the issue, including marketing (Craig, 2006; Whitelock, 2002), strategic management (Smith, 2001), international management (Bell et al., 2001; Tordoir, 1994), and small business management (Daniel et al., 2002; Ruzzier et al., 2006). However, Vogel (2015) recently highlighted a decline in the internationalisation articles published in international management journals. As more countries are participating in international business, research on firms' internationalisation activities is required to propel the knowledge and development of the internationalisation activities (Griffith et al., 2008; Morck & Yeung, 2007).

The majority of the internationalisation research has focused on the context of the United States, China, and Western Europe, with scholars striving to understand (1) the development, pattern, and management of internationalisation activities, (2) the factors that promote or hinder internationalisation, and (3) the knowledge, capabilities, learning experience, and entrepreneurship during internationalisation. However, the contextual differences between developed and emerging economies are substantial (Sinha & Sheth, 2017; Wood, 2002). These include the differences in the culture and the level of social, economic, and political development among these economies (Harvey et al., 1999). Expanding the research settings and developing creative research methods will help to discover complicated cross-cultural phenomena in emerging markets (Craig & Douglas, 2001; Quer et al., 2017).

1.2 The Effect of Globalisation on Firms' Internationalisation

Globalisation is a process of growing interaction and interdependence between economies, societies, and nations across large distances (Vujakovic, 2009). The increased globalisation has increased emerging markets' participation in and contribution to the world economy (Hymer, 1976; Thai & Chong, 2008). ICT tools, such as company websites and online capacities, have positively influenced the growth of firms' internationalisation (Hagsten & Kotnik, 2017). The Internet and e-commerce offer new opportunities for SMEs from emerging markets to circumvent the obstacles to trade and access the global market (WTO, 2016a).

Internationalising firms from emerging markets, if compared with internationalised firms from advanced countries, are adopting unique strategies to compete and excel in international business (Pattnaik & Elango, 2009; Pattnaik & Kumar, 2014). Their competitive advantages include small-scale manufacturing, especially for a niche market or tailor-made products, plentiful natural resources, effective labour costs, attractive government support, and many others (Knight & Cavusgil, 2004; Pattnaik & Elango, 2009). Research on the internationalisation of firms from emerging markets is important, as new insights and concepts are needed to address the development of IB phenomena in emerging markets as rapid globalisation evolves (Griffith et al., 2008; Hipsher, 2006; Kuivalainen et al., 2012; Thai & Chong, 2008; Yang et al., 2006).

1.3 Internationalising Small and Medium-Sized Enterprises

Traditionally, SMEs focused more or less exclusively on domestic business, with the international business arena being largely the domain of larger firms with more substantial resources. Over time, however, as globalising forces enabled—and, increasingly, even compelled—SMEs to expand beyond their home country's borders, scholars noted a particular pattern, specifically a preference to initiate internationalisation in culturally 'close' (i.e., similar) markets (Kontinen & Ojala, 2010; Kuivalainen et al., 2012; Sandberg, 2012). Internationalisation in culturally close markets enabled SMEs to accumulate internationalisation knowledge and experience in markets perceived as being less risky and unpredictable before allowing for further international expansion in culturally more 'distant' markets (Bell et al., 2001; Craig, 2006; Hashai & Almor, 2004).

Foreign market entry is increasingly vital for small and medium-sized enterprises (SMEs) due to their increased exposure to domestic and foreign competition. Engaging in international trade enlarges the market size for SMEs, allowing them to exploit economies of scale and to absorb excess production capacity or output. Through internationalisation, SMEs are exposed to international practices, promote learning, stimulate technology upgrading, and encourage the development of different or higher-quality products and services (WTO, 2016a). As internationalisation is increasingly important for SMEs' survival and growth, decision makers in SMEs have to ensure that their foreign expansion is planned and conducted carefully.

'Industrie 4.0' is a term coined by Germany as part of its High Tech Action Plan 2020. 'Industrie 4.0' is an initiative to transform the secondary industry in the country into a leading industry with greater efficiency and cost-effectiveness in domestic manufacturing. Many countries are now using different terms to describe their national strategy in terms of Industry 4.0, including 'Smart Manufacturing' in the United States, 'Made in China 2025' in China, 'Manufacturing Innovation 3.0' in South Korea, and 'Smart Nation Programme' in Singapore (MITI, 2018; SMECorp., 2017). In Malaysia, Industry 4.0 is a subset of the Fourth Industrial Revolution, referring to production- or manufacturing-based industries' digitalisation transformation, driven by connected technologies. The Industry 4.0 revolution is based on the cyber-physical production system (CPPS), the merging of real and virtual worlds. The fusion of nanotechnology, quantum computing, and digital supply chains and the interaction among physical, digital, and biological domains make Industry 4.0 fundamentally different from previous revolutions (MITI, 2018; SMECorp., 2017).

The High Level Task Force (HLTF) led by the MITI with members from relevant ministries and agencies was established in March 2017 to spearhead the development of the government strategy for Industry 4.0. The HLTF for SMEs in Malaysia has been led by SMECorp. to identify SMEs' challenges, analyse the existing gaps to be filled to achieve Industry 4.0, and propose actions and recommendations to be included in the National Policy on Industry 4.0 (MITI, 2018). The internationalisation of SMEs in Malaysia is relevant to the current Industry 4.0, as Industry 4.0 drives internationalisation among SMEs, particularly in emerging markets. The Malaysian Government provides SMEs with numerous capital allowances, reinvestment allowances, and tax exemptions along with the enhancement and improvement of ICT (SMECorp., 2017). According to SMECorp. (2017), SMEs in Malaysia should orient themselves towards the customer through e-commerce, digital marketing, social media, and the customer experience in line with the Industry 4.0 revolution.

1.4 Problem Statement

The majority of firm internationalisation studies have focused on the manufacturing industry, although the internationalisation of the service industry has accelerated in the past decades, including the internationalisation of the service sector in emerging markets. Research findings from manufacturing firms are not always generalisable to services (Blomstermo et al., 2006). The industry nature, business operation, issues, and problems encountered by service firms are different from those in manufacturing (Skudiene et al., 2015). The production and consumption of services usually occur simultaneously, far beyond the simple exchange of products in manufacturing, and a strong direct relationship between producer and consumer is formed in the service industry (Roura, 2010). The industry differences between the manufacturing and the service industry, the environmental complexity, and the business culture differences in emerging economies demand local responsiveness concerning their business conduct (Luo, 2001; Poulis et al., 2013). Thus, the applicability and accuracy of the existing internationalisation theories in explaining the internationalisation of service sector organisations are questionable. Studies on the internationalisation of service firms from emerging markets are essential to analyse and advance the development of this industry (Erramilli, 1990; Marin-Cadavid & Garcia, 2016).

Internationalising SMEs in emerging markets also face different problems from larger organisations, particularly due to their more limited resources. Important barriers to SMEs conducting business internationally include a lack of financial support, inadequate market information, different national technical standards for products and services, and different laws and regulations in foreign markets (EU, 2011; Mahfuzur et al., 2017; St-Pierre et al., 2018). Scholars have often highlighted that the internationalisation of firms, especially service firms, is under-researched (Javalgi & Martin, 2007; Wang et al., 2017). Research on Malaysian SMEs in the area of internationalisation in service sector has also been limited (Abdullah & Zain, 2011; Chelliah et al., 2010; Dangi et al., 2017). Although business training and consultancy firms (BTCs) from emerging markets are continuing to grow in international trade, the specific challenges that these firms encounter and their capabilities to overcome the internationalisation challenges are yet to be discovered (Consultancy.uk, 2017; Hari, 2011; O'Mahoney & Markham, 2013).

Business training and consultancy (BTC) is one of fast-growing service sectors for SMEs in the world economy. The BTC industry has grown at an average compound annual growth rate of 4.1 per cent since 2011 to a value of US$251 billion in 2016 (Consultancy.uk, 2017). Business training and consultancy firms provide their clients with management training, advice consulting, and assistance. The last few years have seen the prompt development of business training programmes, especially in developing countries, but less rigorous evidence has emerged on the effectiveness of these training programmes, including the internationalisation activities of BTC firms (Bode & Burn, 2001; De Mel et al., 2014). Business training and consultancy firms from emerging markets face a number of unique challenges: service innovation problems, management practice, and business continuity issues. The delivery of management consultancy is complex, intangible, and uncertain, and usually a high fee is charged to clients. This makes it difficult for clients to evaluate the effectiveness of the consultancy services (Bennett & Smith, 2004). Despite the fast growth of BTC firms in emerging markets, the efficiency and issues facing by this new industry have been overlooked by academic research.

In Malaysia, business training and consultancy (BTC) is categorised as a business service in the service sector. Business services are the second-largest industry in the service sector, contributing RM23 billion in service exports in 2014 (MITI, 2015). As of 2017, 2,625 business training and consultancy firms are registered in Malaysia (SMECorps, 2017). Among these 2,625 firms, many have not internationalised their operation and some are inactive. The population of BTC firms in Malaysia is too small to generate statistical data, but the industry is different in its business operation and internationalisation decisions with strategies adopted, and it is fast growing. Qualitative research assist in studying this new and fast-growing industry to understand the internationalisation behaviour of BTCs in the emerging market context in their natural setting. The implications and discoveries introduced in this study will enable the industry to advance in term of development.

1.5 Research Objective

The objective of the study is to *analyse the internationalisation of service sector SMEs in an emerging market* and in particular

- To analyse the internationalisation process, namely the entry modes and psychic distance of service sector SMEs in emerging market.
- To understand the influence of business network in service sector SMEs' internationalisation.
- To examine the internationalisation challenges of service sector SMEs in emerging market.
- To examine service sector SMEs' capabilities during the internationalisation of the firms.

1.6 Research Questions

This internationalisation analysis includes the selection of entry modes and international markets and the importance of business networks in firms' internationalisation. The research also aims to discover the challenges and capabilities of service sector SMEs in an emerging market. The research questions mainly intend to provide an understanding of which entry modes are adopted during firms' internationalisation and why; which international markets are entered and the factors of selection; business networks' influence on firms' internationalisation; and the kinds of challenges and capabilities adopted during firms' internationalisation.

The study seeks to address the following questions:

1. What entry modes do service sector SMEs from emerging markets adopt to initiate their internationalisation, and why do they adopt these modes?
2. Which markets do they enter and what factors determine this market choice?
3. How do business networks influence firms' internationalisation?
4. What challenges do service-sector SMEs from emerging markets face during internationalisation, and how do they overcome these challenges?
5. What are key business capabilities for internationalising service-sector SMEs from emerging markets?

1.7 Significance of the Study

This research will shed light on the internationalisation decisions, challenges, and capabilities of service sector SMEs from emerging markets, specifically business training and consultancy firms in Malaysia.

1.7.1 Theory

The Uppsala model was introduced in the 1970s when Johanson and Wiedersheim-Paul studied the internationalisation process of four Swedish manufacturing firms. The model is important to the study of firms' commitment to and involvement in foreign markets. It also acknowledges the risk and the importance of knowledge, experience, and business networks in firms' internationalisation (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975). The model is still widely used today to study firms' internationalisation behaviour, especially manufacturing firms in the US, Western Europe, and recently Asia and emerging countries (Cruz et al., 2016; Kujala, 2016; Skudiene et al., 2015). Considering the emerging and fast-growing service sector SMEs in international business, it is important to study the application of the Uppsala model, which was introduced in the 1970s, to the recent internationalisation of service firms. The internationalisation of service sector firms from emerging market has also received less attention in academic research (Cave, 2006; Gaur et al., 2014; Javalgi & Martin, 2007). Research on service firms' internationalisation is needed for more theory advancement to address and respond to the issues arising (Gligor, Esmark, & Golgeci, 2016).

To acknowledge the importance of service internationalisation, Javalgi and Martin's framework of service internationalisation, introduced in 2007, is also analysed in this research. This research provides theoretical reflections on internationalisation theory, in particular the internationalisation of service sector SMEs. It also investigates the internationalisation of BTC firms from an emerging market to determine the relevance of the Uppsala model and the framework of service internationalisation to explain the recent internationalisation in this new industry and the internationalisation phenomena in the emerging market context as well as the future development and application of international research in this industry. The qualitative research conducted in this study provides important insights into the accelerated nature of emerging market service sector SMEs' internationalisation, thus bringing into focus the continued accuracy and relevance of the dominant internationalisation theories.

1.7.2 Practice

This research studies the internationalisation concepts in services for their future application and development in the BTC industry, which has received little attention in academic and business research. Research on the internationalisation of service sector SMEs from emerging markets is needed to develop and advance the industry (Argyris, 2000; Kaynak, Tatoglu, & Kula, 2005; Todd & Javalgi, 2007). This study could be useful for managers, policy makers, and authorities in developing strategies and promoting service internationalisation in Malaysia. The thesis explores the internationalisation decisions of service sector SMEs from an emerging market.

The research is important since it addresses the internationalisation decisions, challenges and capabilities of business training and consultancy firms from emerging markets in global competition. The research focuses on the contextual idiosyncrasies of the emerging market setting and identifies the internationalisation challenges that are specific to service sector SMEs and the capabilities or competitive advantages in this industry to compete with other emerging markets or advanced nations. The study increases resource allocation efficiency and develops a source of competitive advantage to expand the ability of business training and consultancy firms in emerging markets to sell a variety of products and services to the international market.

1.8 Definitions of the Key Terms

The following part will provide definitions and descriptions of the terminology used in this study.

Firm Internationalisation. A firm's attitude towards foreign activities or the actual business activities carried out abroad (Johanson & Wiedersheim-Paul, 1975).

Uppsala Model. Also known as the 'stage model'. A firm is assumed to internationalise through a sequential incremental decision and learning process. As a firm progressively increases its knowledge and experience in international business, it will increase its commitment to and involvement in foreign markets (Johanson & Vahlne, 1977).

Psychic distance. One of the concepts included in the Uppsala model discussion. It refers to a set of factors preventing and disturbing the flow of information between the firm and the market, including differences in language, culture, political system, level of education, or level of industrial development (Kujala, 2016).

Business network. The connected business relationship between stakeholders and competitors, suppliers, customers, distributors, and the government (Forsgren & Johanson, 1992).

Emerging market. A country that is experiencing rapid economic growth and political reform (Kalinowski, 2014; Vercueil, 2012a).

Framework of Service Internationalisation. A framework introduced by Javalgi and Martin in 2007 to study the internationalisation behaviour of service sector firms. The framework consists of firm-level resources, management characteristics, firm characteristics, market entry modes, and the host country as analysis factors (Javalgi & Martin, 2007).

Entry Mode. The choice of market entry mode during a firm's internationalisation. It usually moves gradually from low involvement and commitment towards more direct channels. There are five different stages: exporting, licensing, franchising, joint venture, and wholly owned subsidiary (Anderson & Gatignon, 1986a; Javalgi & Martin, 2007).

Firm-Level Resources. Company resources include market orientation, entrepreneurial orientation, service innovation, and capability. Firm-level resources refer to the way in which a company transforms valuable and inimitable organisational resources into a sustainable competitive advantage (Javalgi & Martin, 2007).

Capability. The ability to integrate, build, and reconfigure internal and external competences to address the changing environment (Teece et al., 1997). It involves processes that use, integrate, reconfigure, gain, and release resources to match the changing environment (Eisenhardt & Martin, 2000).

Service Sector. Also known as the 'tertiary sector'. It refers to private personal and business services, excluding agriculture, forestry, hunting and fishing, manufacturing, mining and quarrying, transportation, communication, wholesale and retail trade, finance, insurance, and real estate (Kanapathy, 2003; Kutscher & Mark, 1983).

Small and Medium-Sized Enterprises (SMEs). Small and medium-sized independent business entities managed by owners or business partners. Businesses can be registered as a sole proprietorship, partnership, corporation, or any other legal form. Different countries have their own standard definition of SMEs, and normally the definition is based on the number of employees and annual turnover (SMECORP, 2013).

Business Training and Consultancy (BTC). Experienced professionals who provide diagnoses, advice, planning, consulting, and training to solve problems or improve the performance of firms (Armbruster, 2006; Tordoir, 1994; Wood, 2002).

International Markets. The foreign markets of companies that expand their business activities abroad (UnitedNation, 2017).

1.9 Organisation of the Chapters

This thesis is divided into seven chapters.

Chapter one is the introductory chapter, which provides the background of the study, the problem statement, the research objective, the questions of the study, the significance of the study, and the definition of the key terms.

Chapter two focuses on the existing literature in relation to the research topic. The first part reviews firms' internationalisation and the internationalisation of the service sector. It is followed by an exploration of small and medium-sized enterprises, including the business training and consultancy industry. This chapter also discusses the emerging markets and the country under study, Malaysia.

Chapter three presents the theoretical framework for the research. The Uppsala model and the framework of service internationalisation are discussed. Scholars' discussion of internationalisation theory is included in the final section.

Chapter four describes the research methodology used. It is divided into several sections comprising the qualitative research paradigm and framework, multiple-case studies, sampling method, data collection, triangulation, and data analysis.

Chapter five focuses on the analyses of single-case and cross-case setting among interviewed firms. The results of the study are presented.

Chapter six examines the findings in light of previous studies and analyses on what the study has contributed. The key findings have been discussed in detail and the discussion is extended to include the implications.

Finally, Chapter seven contains the conclusion regarding the findings in line with the objectives and limitations of the study and provides suggestions for future research.

CHAPTER 2 – LITERATURE REVIEW

2.1 Introduction

Chapter two reviews the literature on firm internationalisation, service sector internationalisation, small and medium-sized enterprises, the business training and consultancy industry, and emerging markets. The issues raised by scholars concerning the business training and consultancy industry are discussed in this chapter. The discussion is extended to include a review of the country under study, Malaysia.

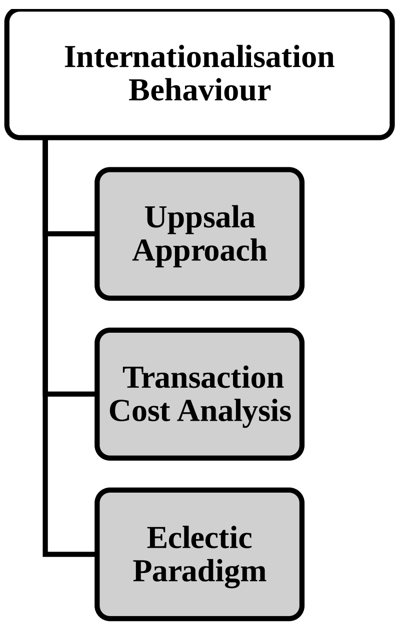
2.2 Firm Internationalisation

Johanson and Wiedersheim-Paul (1975) described internationalisation as a firm's attitude towards foreign activities or the actual business activities that are carried out abroad. They claimed that there is a close relationship between attitudes and actual behaviour during firm internationalisation. Attitudes are the basis for firms' decision to undertake international activities, while international experiences influence these attitudes.

In 1990, Beamish referred to internationalisation as the process of increasing the awareness of the direct and indirect influences of foreign transactions on firms' operation, firms' business transactions with other countries, and the influence of foreign transactions on firms' future (Beamish, 1990). In 1995, Calof and Beamish added that internationalisation includes the process of adapting firms' operation to foreign markets (Calof & Beamish, 1995). This process includes the adaptation of firms' resources, structures, and strategies oriented towards overseas business.

There are three approaches to explaining firms' internationalisation behaviour: (1) the Uppsala approach/stages model, (2) transaction cost analysis, and (3) the eclectic paradigm (see Figure 2.1). The Uppsala approach studies firms' internationalisation process and stages. Transaction cost analysis addresses the difference between the prevailing price and the actual price of internationalisation activities to determine the effectiveness of firms' international portfolio investment. The eclectic paradigm or OLI model was developed by John H. Dunning in 1993 for a firm to determine the benefits of pursuing foreign direct investment based on organisation, location, or internalisation advantage analysis.

Figure 2.1 Studies on Internationalisation Behaviour



2.2.1 Uppsala Model

Firms are widely assumed to internationalise through a process of sequential learning and incremental decision making (Johanson & Vahlne, 1977). Over time, as firms progressively increase their knowledge of IB, their commitment to and involvement in foreign markets expand in a series of stages. This view of internationalisation holds that the major obstacle to firms' internationalisation is a lack of knowledge. The knowledge and information acquired during the initial internationalisation experience are thus used as a guide for subsequent internationalisation (Johanson & Vahlne, 1977; Knight & Cavusgil, 2004; Whitelock, 2002). Experiential learning is accumulated by firms through decision making and business operations in foreign markets (Carlson, 1966; Johanson & Vahlne, 1977; Tordoir, 1994). This description and understanding of internationalisation form the core of what is generally known as the 'Uppsala model', named after the Swedish city in which the original authors, Johanson and Vahlne, were based at the time of the research.

In 2009, Johanson and Vahlne revised the Uppsala model to acknowledge the importance of business networks in firms' internationalisation. According to the authors, internationalisation is the development of networks of business relationships in other countries through extension, penetration, and integration (Johanson & Vahlne, 2009). The current network position of the firm is important in achieving international success, and the concept of network positioning is considered to be more significant than market commitment during firm internationalisation. Internationalising firms thus have to develop a robust position within, and solid commitment to, their business networks to gain opportunities and access to the required knowledge (Johanson & Vahlne, 2009; Kujala, 2016; Surin et al., 2015).

2.2.2 Transaction Cost Analysis

Transaction costs are the negotiating, monitoring, and enforcement costs that have to be borne to allow exchange between two parties (Jones & Hill, 1988). Transaction cost analysis (TCA) in internationalisation explains firms' internationalisation decision regarding whether to self-produce within the firm (vertical integration) or to deploy independent agents (market contract) in performing their international transactions (Mooi, 2014; Williamson, 1979, 1981). TCA is also called transaction cost theory or transaction cost economics, as the theory originates from economics. Transaction cost analysis treats market contracting as more efficient than firms' internal vertical integration. Competitive pressure in contracting firms enforces efficient contract execution and encourages these firms to be adaptable and even cooperative. Transactions within internally integrated companies may be insulated from competition, subject to company politics, and hampered by communication distortion, employees' uninformed decision making, inertia, and other bureaucratic phenomena. These companies may be unprofitable due to the administrative overhead cost (Anderson, 1985; Buckley et al., 2017).

Basic TCA is limited by its focus on reducing costs as the single driver of governance decisions. However, it has expanded to accommodate governance decisions encompassing costs and benefits (Ghosh & John, 1999). There are six main factors that produce transaction difficulties, namely bounded rationality, opportunism, uncertainty and complexity, small numbers, information impactedness, and asset specificity (Jones & Hill, 1988):

1. Bounded rationality: The rationale that humans are limited in their ability to process information.
2. Opportunism: Humans are prone to opportunity or self-interest seeking.
3. Uncertainty and complexity: The considerable uncertainty in the real world.
4. Small numbers: Small numbers of trading relationships are frequently found in the real world (e.g. oligopoly).
5. Information impactedness: Information about transactions is often asymmetrically distributed between parties in exchange. One party might have more knowledge than another.
6. Asset specificity: The investment or payment in new assets that is specific to the requirement of an exchange relationship.

Scholars use transaction cost analysis to study firms' internationalisation from a variety of perspectives. These include the efficiency perspective in transaction cost analysis to explain entry mode strategies (Agarwal & Ramaswami, 1992c; Anderson & Gatignon, 1986a), the location choice during firms' internationalisation (Buckley & Strange, 2015; Kinra, 2015; Williamson, 1979), firms' diversification and performance (Gaur & Kumar, 2009; Ying et al., 2018), and the forward–backward integration of the firm (Andreou et al., 2016; Buckley, 2016; Buckley & Casson, 2009).

2.2.3 The Eclectic Paradigm

There are a number of motives to encourage firms to expand their operations overseas. According to Dunning (1988; 2010), the key motives depend on firms' requirements, which include market-seeking, efficiency-seeking, asset-seeking, and resource-seeking factors. He summarised these motives according to three categories: ownership advantage, location advantage, and internalisation advantage. These motives encourage firms to become multinational firms to internationalise in foreign markets (Chowdhury, 2015; Dunning, 2015). Given its holistic nature, Dunning's framework became known as the eclectic paradigm, though it is also referred to as the OLI theory (ownership advantages, location advantages, and internalisation advantages).

Ownership advantages were studied by Dunning under the assumption that a business that is planning to make an investment in a foreign country will face several disadvantages in relation to local companies in the beginning. However, the unique advantages of a business can neutralise these negative conditions. Patented technologies, a brand image, and qualified human resources can be given as examples of these unique qualities (Ayazlar, 2015; Dunning & Lundan, 2010).

Location advantages refer to the benefits that firms could achieve by launching FDI in foreign markets, such as economic, social and cultural, and political benefits. Economic factors can be, for example, the amount and quality of manufacturing factors, the market size and extent, and transportation and communication costs. Social and cultural factors are a result of the physical distance between the home and the host country. Physical distance produces differentiation in geographical and cultural values. Political factors include country policies, which might affect the investment process and international trade (Ayazlar, 2015; Dunning & Lundan, 2010).

Internalisation advantages are the benefits that firms may enjoy by taking more internal operational control in their overall strategies and internationalisation (Dunning & Lundan, 2010). Internalisation advantages explain why firms prefer to internalise their foreign value-added activities within their hierarchies instead of leasing or licensing the right to use these advantages to independent foreign entities (Ayazlar, 2015; Dunning & Lundan, 2010).

Initially, the eclectic paradigm primarily addressed static and efficiency-related issues, but more recently it has paid attention to the dynamic competitiveness and locational strategy of firms and particularly the path dependency of the upgrading of their core competencies (Dunning, 1988, 2000, 2015). Verbeke and Yuan (2010) claimed that the eclectic paradigm underestimates the characteristics of independent businesses. Moreover, geographical resources have been exhibited as other weaknesses of the eclectic paradigm; in fact, firms' transferability skill and resource recombination advantage can handle the internationalisation issues. Internalisation advantages were criticised by Guisinger (2001) because they only focus on a single entry mode. The researcher viewed this aspect as a drawback.

2.2.4 Guiding Theories in this Research

The Uppsala model is a more appropriate theory for this research, as it analyses the internationalisation decision-making process and in particular the adoption of entry modes. The Uppsala model has been discussed in detail in Chapter 3. The differences between the manufacturing and the service industry are substantial. They include the industry nature, the operation, and the issues and problems encountered. The widely used internationalisation theories do not explain the phenomenon of accelerated and rapid internationalisation, especially rapid internationalisation in the service sector (Skudiene et al., 2015). The Uppsala model is used extensively to study the internationalisation behaviour of firms, including manufacturing and service firms. To address the research gap and the limited theory that explains the internationalisation activities in the service industry more precisely, Javalgi and Martin (2007) introduced a new framework for the internationalisation of services that is subject to further testing and improvement. The framework for service internationalisation has been discussed in detail in Chapter 3. In this research, the Uppsala approach is the guiding theory to study the internationalisation behaviour of firms and to test the relevance of the Uppsala approach to service internationalisation, especially for business training and consultancy firms from an emerging market. The framework for service internationalisation is an additional reference for analysing the internationalisation decisions of service sector SMEs. As globalisation forces and ICT advancement have provided new opportunities for service sector SMEs to expand their business abroad, the internationalisation model has to be adapted to the changing environment (Becker, 2002).

2.3 The Internationalisation of the Service Industry

Service internationalisation became intensive in international business as long ago as the 1980s. Service companies produce or provide services to increase their exchange with foreign counterparts with the aim of being present and gaining market share in other countries (Radulovich et al., 2018; Roura, 2010). In 2014, services accounted for 68.3 per cent of the world output (WorldBank, 2017). The service sector is growing in importance to the global economy, as can be seen in Table 2.1 and Table 2.2. The world total GDP in 2016 was US$74.15 trillion (WorldBank, 2018c).

Table 2.1 Leading Exporters in World Trade in Commercial Services (Excluding Intra-EU 27 Trade) in 2015

Exporters	Value (US$, Billion)	Share	Annual Percentage Change
China	2275	17.4	-3%
Extra-EU (28) exports	1985	15.2	-12%
United States	1505	11.5	-7%
Japan	625	4.8	-9%
Korea, Republic of	527	4.0	-8%
Hong Kong, China	511	3.9	-3%
Canada	408	3.1	-14%
Mexico	381	2.9	-4%
Singapore	351	2.7	-14%
Russian Federation	340	2.6	-32%
Switzerland	290	2.2	-7%
Chinese Taipei	285	2.2	-11%