



## **The Influence of Motives and Internal Factors in Selecting Markets Entry Mode: A Case Study of Internationalization of Herbs and Food Industries Sdn. Bhd. Company**

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### **ABSTRACT**

*The main purpose of this study was to examine the “motives and internal factors of Small Medium Enterprise companies (SME’s) that trigger the selection of appropriate mode of entry for their company”. This study will focussolely on issues as to why do (SME’s) decide to venture abroad and how do they select their mode of market entry. For better understanding of this project paper topic, several questionnaires have been formulated on these issues by focusing on the motives for business internationalization, approaches to foreign market entry modes and influence of internal factors. All the data were collected from experienced business personnel and officers that were directly involved in international market and having served in companies having international market department. The respondent that was chosen for this paper work was Herbs and Food Industries Sdn. Bhd. located in Perlis, Malaysia. However only one person who worked asan Assistant Manager, Marketing and Public Relations Department of Herbs and Food Industries Sdn. Bhd was chosen as a sample for this study. A qualitative approach was chosen as the most likely suitable method in order to provide the feedbacks for this research. Direct interview wasone of the methodologies applied to get an accurate and specific data for this project paper. Secondary data, such as web sites, administrative records and others, shall also be used in this paper*

**Keywords:** mode of foreign market entry, motives for business internationalization, internal factors influencing company’s venturing into international markets

### **1. INTRODUCTION**

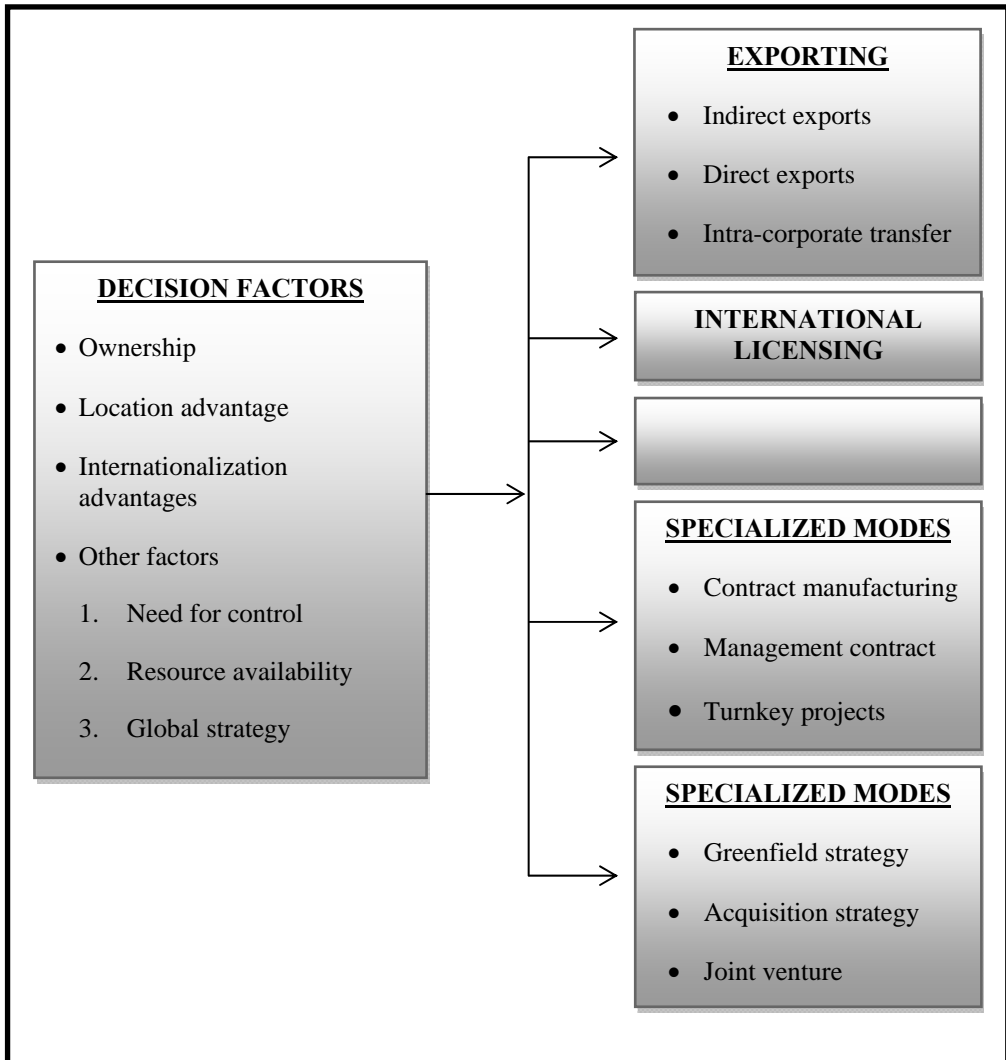
Business internationalization among Small And Medium Enterprise companies (SME’s) today are influenced by increased in new business forms such as licensing, franchising, joint ventures, acquisitions and foreign direct investments. The nature of internationalization has changed (Williams, 1992). In the past, SME’s have chosen foreign direct investments and exports as modes of entry, but now they have several choices to business internationalization, including via joint ventures, licensing agreements, etc. SME’s have some different characteristics

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compared to Multi National Companies (MNC's) that makes any entrepreneur to choose this kind of business. SMEs are not smaller versions of larger companies, but because of their size, they tend to interact differently with their environment (Brouthers and Nakos, 2004). They differ from large multinational enterprises (MNE's) in terms of their managerial styles, ownerships and being independent (Brouthers and Nakos, 2004). The process of business internationalization by SME's has been explained by many theories. One of the theories is the Uppsala Model, which explained that firms increase their international involvement in small incremental steps within those foreign markets in which they currently operate. This accumulated knowledge in conducting international operations drives internationalization by influencing the entry-mode and country-market selection (Ruzzier, Hisrich and Antoncic, 2006). The decision on how to enter a foreign market can have an impact on the results. Usually there are varied ways in which SME's can enter foreign markets. Entry strategy is the most important part of the international business. Entry strategy involves export and import activities considerations and generally refers to establishing and managing contracts in the foreign country. Some of the relevant factors that are important in deciding the viability of entry into a particular market and should be considered by all SME's owners include factors such as resources and barriers. Examples of market barriers that SME's will face when conducting international business include trade barriers, local cultures, price competition as well as export subsidies.

Figure 1: Modes of Entry



Sources: Ricky W. Griffin and Michael W. Putsay, 2007, pp 331.

## 1.1 Research Questions

1. How can factors that motivate SME's internationalization be described?
2. How can SME's approach to foreign market entry mode selection be described?
3. How can the influence of internal factors on SME's market entry mode selection be described?

## 1.2 Research Objectives

The objectives of this project paper are to understand the internal factors and motives that influence SME's in their final decision of selecting the mode of entry in foreign markets.

These objectives can be formulated in three statements as follows:

- i. To explain the motives influencing business internationalization among SME's.
- ii. To describe the mode or approach applied by SME's to expand their business in foreign markets.
- iii. To explain the internal factors influencing decision in selection of mode of market entry.

## 1.3 Problem Statements

The major problem to SME's now days is to select the right strategies to enter foreign markets. It is important to emphasize the strategy to be adopted by the organization for its international operations and to ensure full determination of the successful key factors relevant to that strategy (Martinewisk and Gomes, 2002). The performance of the export venture, in turn, is determined by the export marketing strategy and firm's capability to implement the export marketing strategy (Tesfom and Lutz, 2006). SME's have problems in selecting a mode of entry because usually they have limited resources and technology. The best use of technology, no doubt enables enterprise to reduce cost of production, to maintain consistency in quality, improve productivity and finally to develop the competitiveness of the enterprise (Nepal, Karki and Niraula, 2006). In fact, networks and networking are the results of external changes and internal needs that both influence the competitiveness of companies (Rautenstrauch, 2002). Most SME's failed in their international operations because of failure in determining and identifying factors that are needed in conducting international business. Controlling foreign operations is a special skill that requires time to develop and refine (Brouthers and Nakos, 2004). SME's failed to understand their motives for going to foreign market, resulting in inability to achieve their goals and strategic plan in their company's operations and management. Choosing international business as a mode of entry is considered a critical strategic decision (Brouthers and Nakos, 2004). Generally there are five (5) modes of entry that a company can select to enter foreign markets, including exports, franchising, licensing or contract manufacturing, joint ventures, strategic alliances and lastly by foreign direct investments. At least for SMEs, mode of entry may be an important determinant of international performance ((Brouthers and Nakos, 2004). Others problems include selection of appropriate strategy for entry. Whatever mode of entry chosen by SME's, they need to identify their resources and capability to

stay competitive in foreign market. According to Griffin and Putsay (2007), other factors a firm may consider include the firm's need for control, the availability of resources and the firm's global strategy. Export potentials are the most common method used by SME's when deciding to go abroad.

## **2. LITERATURE REVIEWS**

In Malaysia, SME's Corporations was established to help the development of small and medium-sized enterprises by providing infrastructure facilities, financial assistance, advisory services, market access and other support programs. Known as the Small and Medium Industries Development Corporation (SMIDEC), its aim was to develop capable and resilient Malaysian SMEs to be competitive in the global market. The various initiatives undertaken by SMIDEC had improved the overall efficiency in policy implementation.

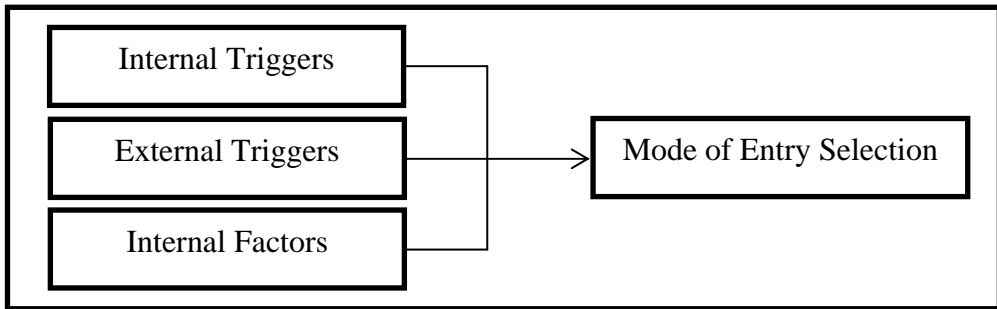
### **2.1 Company Background**

Herbs and Food Industries Sdn. Bhd. ('HFI' or the "Company") was established in 1995 and categorised under food products industry. The main objective of the Company is to introduce traditional herbal treatment as an alternative treatment to society in improving their health and quality of life. HFI has been involved in various roles such as being a manufacturer, a distributor and as an exporter of herbal health and consumer products. Their products include herbal remedies, toiletries and food supplements. Overall, 304 products are offered in the markets and the Company has conducted several classes on products knowledge. The Company has been the most popular consumer halal product supplier and is the best known brand in Malaysia. HFI now has more than 2,000 employees' with factories in Malaysia, Indonesia, Brunei and Singapore.

### **2.2 Motives for Internationalization and Theoretical Framework**

In order to understand SME's motives for internationalization, it is important to know what triggers the business internationalization process. Usually, SME's motives for involving in an international business are related to transfer of know-hows, technical and economies of scale. Motives of SME's internationalization can be divided into two (2) categories, i.e. internal triggers and external triggers.

Figure 2: Theoretical Framework



Sources: Author's construction

### 2.3 Internal Factors

According to Gustavsson and Lundgren (2006), the internal factors are related to perceptivemanagement, specific internal events and inward internationalization, while the external **factors** include market demand, competing companies, trade associates, and outside experts. Perceptive managementrefers to management often becoming aware of the opportunities an expansion of their company to a new market would give them. Kau, Koh and Swinyard (1999) found that managers in exporting firms were more likely to have worked overseas, travelled more extensively, have better foreign language skills and were better educated. They found out that senior managers must assign as top priority to international business in order to achieve regularity in export. The more international experience a company has, the higher is its propensity to adopt a high equity entry mode (Decker and Zhao, 2004).

In specifics, the company can consider as internal factors or internal triggers when deciding to go abroad. The marketing department are responsible for carrying out the market research and then the CEO will decide in which foreign market activities the company should be a part with (Gustavsson and Lundgren, 2006). Inward internationalization (import) and outward internationalization (export) relates each other in internationalization process. Empirical results have shown that there arestrong linkages between inward activities such as import of raw materials, capital equipment andknow-how and outward internationalization (Chittoor and Ray, 2007).

### 2.4 External Factors

External factors in motives for internationalization for SMEs include factors such as market demand, competing companies, trade associates and outside experts. Foreign market offers great profits to SMEs if their products can suit the local *market demand* or can meet local customers need. Properly assessing the

market demand for a given product is very important to the company (Mariam, 2008). Apart from that, market analysis also helps a company to understand the foreign industry characteristics that will influence their motives for entry (Puljeva and Widen, 2007). Our analysis shows that internationalization patterns are also influenced by industry characteristics that drive or hinder internationalization (Grogaard, Gioia and Benito 2005). Usually SMEs start to internationalize their business when faced with *competing companies* in the same industries offering the same products. Thus stepping into internationalization process can be seen as a counterattack, where the SME's enter the competitor's home markets and try to tie up their resources (Gustavsson and Lundgren, 2006). However, this motive for internationalization still depends on the company's objective and motto for entering foreign markets. Some enterprises do not think about competitiveness, but they want to improve their innovative capability and to introduce new products or services to the market (Dabrowska, 2008).

## 2.5 Proactive and Reactive Factors

Motives for internationalization can be divided into two (2) factors, i.e. proactive and reactive. Proactive stimuli are factors such as attractive profit/growth opportunities, products that can easily be customized to foreign market needs, uniqueness of the products, managerial aspirations and economies of scale (Onkelinx and Sleuwaegen, 2009). As motives for internationalization can be either internal or external to the firm and with either proactive or reactive factors, these stimuli can thus be classified into four categories: proactive-internal, proactive external, reactive-internal and reactive-external (Onkelinx and Sleuwaegen, 2009).

Proactive-internal stimuli are factors in the firm's internal environment that are linked to internal competencies or market opportunities. Examples are the possession of unique products or services, a competitive cost advantage, unique management competences, a favourable attitude towards exporting, production savings resulting from additional orders and the ease with which products can be adapted (Onkelinx and Sleuwaegen, 2009). These drivers relate to factors such as protection against an economic downturn in the domestic market or available production capacity (Onkelinx and Sleuwaegen, 2009). Reactive-external stimuli on the other hand originate from the external environment and reflect a passive attitude towards export engagement.

According to Gustavsson and Lundgren 2006, the classification for internationalization motives are:

- *Managerial urge*, i.e. the desire, drive, enthusiasm, and commitment of the management towards entering a new market. In SMEs, export decisions may be the province of a single decision maker. These

decisions are affected by the international background of the managers - those who have more international experiences are more internationally business-minded.

- If company has *unique product*, it can easily enter foreign markets, because of inquiries from foreign markets.
- A *specialized marketing* helps SME's get important information about the specific markets that they try to enter. This is very important because it also helpsto avoid from any entry barriers when SMEs decide to go abroad.
- Exporting can lead to increasing productivity, through economies of scale. The positive impact of exports on economic growth has been attributed to several factors, one of which is the impact of *scale economies* (Thangavelu and Owyong, 2003). More export-oriented economies also tend to enjoy greater scale economies because exports, which allow them to tap into foreign markets, enable them to overcome the limited size of their own domestic ones (Thangavelu and Owyong, 2003).

## 2.6 Modes of Entry

Firms that want to internationalize must decide on a fitting mode of entry into a foreign market in order to make the best use of their resources (Osland, Taylor and Zou, 2001). In countries where the risk factors are high, firms adopt a low control entry mode and in economies where the risk factors are low, a high control entry mode is preferred (Taylor, Zou and Osland, 2000). Choice of a mode of entry had been a popular research theme in the context of entry of firms from developed countries into emerging economies (Chittoor and Ray, 2007). Entry modes can be divided into equity and non-equity entry modes according to different resource commitment levels. Exporting the finished goods or services is one of the several strategies for entering foreign markets. Exporting is a common approach choice to the foreign market entry decision faced by management teams in a variety of industries.

## 2.7 Rules in Selecting a Mode of Entry

According to Koch 2001, three (3) basic rules introduced by Root 1994 to select a mode of entry are possible:

- i. Selection in absence of any market entry strategy, or ``the sales approach characterized by, among others, short time horizons, no systematic selection criteria, few product adaptations and no effort to control overseas distribution;
- ii. Selection in accordance with an existing market entry strategy, i.e. naïve or pragmatic rules (Root, 1994, pp. 159-60).



- iii. Selection which considers some strategy rule(s) and involves systematic comparisons of alternative modes available (systematic approach ± see Pezeshkpur (1979).

## **2.8 Influence of Internal Factors**

The choice of mode of entry depends on a set of internal and external factors relating to the firm.

This paper work will only focus on internal factors. Influence of internal factors includes company size, international experience and the product itself. *Company size* refers to company resources and capability. Companies that have more of their own resources and/or have secured better access to resources of other companies through various forms of alliances are less restricted, other things being equal, in their international market selection (Koch, 2001). *International experience* of company has an impact on selection of market entry mode. Experience is a major factor shaping strategic directions, company corporate culture and collective knowledge or common wisdom (Koch, 2001). The influence of company size on its freedom of choice in selecting market entry mode and their relevant preferences depends on industry-specific resource demands for individual market entry modes (Koch, 2001). Without having sufficient, relevant experience and knowledge, there tend to be a stronger sense of risk and uncertainty involved in the global marketing decisions, which in turn constraints at least the subjective, if not the objective, freedom of choice of market servicing modes (Koch, 2001).

Lastly, internal factors that influence the market entry modes are *product*. Product differentiation plays important roles in foreign market. According to Gustavsson and Lundgren 2006, products that are distinguished by their physical variations, brand names, advertising, after sales services and those preferred for one product over another, help a company to handle the higher costs of being in foreign markets.

## **3. METHODOLOGY**

### **3.1 Research Method**

This paper main purpose is to gain information or to have a better understanding on how internal factors and motives will influence a company to choose the right mode of entry. In other words, this paper work will give more knowledge to the researcher on how internal factors and motives impact SME's approach to selection of mode of entry into foreign market. Generally, this paper work can be classified as adopting a qualitative approach. Five (5) strategies that applied in

interpreting all data's are experiments, surveys, archival analysis, history and case study. Usually, interviews may be conducted individually or in groups. Face-to-face individual interview questions were used in this study because of the 'how' and 'why' questions. Interviews represent a classic qualitative research method that is directly interactive. Face-to-face interviews have little control on behaviour and mainly focus on contemporary events in the real-life context. This project paper involved getting feedbacks on "how and why" questions, so the most suitable strategy undertaken by the researcher was to conduct face-to-face interviews (descriptive). This was the best way in identifying the subjects' points of view and later in completing and writing research reports.

### **3.2 Data Collection Method**

The most appropriate method for data collection in this paper work is more on specific study. In this study only documentations and face-to-face interviews were used, being the most appropriate methods in the study. Face-to-face methods were used giving the author an opportunity to ask specific data and questions for this study. Apart from that, face-to-face method also provided an opportunity to ask follow-up questions directly. However, this data collection method used as a base because it functions as guideline to ensure that interview can conduct as comfortable and in a relaxed manner, allowing the respondent to response to all questions smoothly. Secondary data, such as web pages, documentation of academic journals and administrative records etc., are used in this study for better understanding of data's in getting good results.

### **3.3 Sample Selection**

Sampling is the process of selecting a sufficient number of elements from the population so that by studying the sample and understanding the properties or the characteristics of the sample subjects, we will be able to generalize the properties or characteristics to the population elements" (Masum and Fernandez, 2008). HFI was chosen to conduct this study, a company involved in the food industries. This Company is well known in producing 'halal' food and health products. The Company was selected for this study based on following criteria's:

- i. A Malaysian business entity with a base in Perlis, Malaysia.
- ii. A small or medium sized company.
- iii. Have international business activities and subsidiary in foreign country with a low percentage of export. The low percentage of export to foreign markets enables the author to see the market patterns and make some conclusions for this study.
- iv. This company fulfils the criterias that author created and
- v. Willing to participate in my paper study.

### 3.4 Data Analysis

In order to perform the data deduction, the author needs to compare data from previous studies. The author will then tabulates the findings in order to simplify the display of the data. Finally, the researcher shall then be able to draw some conclusions. Generally, data analysis are based on three (3) important elements, i.e. motives why company go into international markets, approaches before entering foreign markets, internal and external factors that influence selection of mode of entry.

### 3.5 Instrument (Question Interview Design)

Author has elected for closed interviews. The questionnaires were divided into two parts: general information and specific questions. The questions provide the qualitative information, using the types of questions mentioned above. While developing the questionnaires, the researcher have focused on using questions that will provide researcher with datas related to the main theme of the research, vis-à-vis to investigate the motives and factors influencing the business internationalization process of SMEs.

## 4. FINDINGS

The data's for this Company were collected through face-to-face interview. The author interviewed the Assistant Manager, Marketing and Public Relations Department. He has worked more than fourteen years within various departments in HFI. The officer has also been assigned various roles in the Company, including as a facilitator for the marketing program offered, as a promoter and marketing convention coordinator and lastly as an expatriate to conduct international market opportunities assignment (search for new markets in foreign countries). The officer possessed a Diploma in Business Studies (majoring in Professional, Entrepreneur and Marketing) from Universiti Malaya, Malaysia.

Figure 3: Findings from the Interview Session

| INTERNAL TRIGGERS     |   |                          |   |  |   |                 |   |
|-----------------------|---|--------------------------|---|--|---|-----------------|---|
| Perceptive Management | √ | Specific Internal Events | √ | Inward Internationalization (to little import) | X |                 |   |
| EXTERNAL TRIGGERS     |   |                          |   |  |   |                 |   |
| Market Demand         | √ | Competing Company        | X | Trade Associations                             | X | Outside Experts | X |
| PROACTIVE FACTORS     |   |                          |   |  |   |                 |   |

|                         |                       |                          |   |                                     |   |                        |   |
|-------------------------|-----------------------|--------------------------|---|-------------------------------------|---|------------------------|---|
| Managerial Urge         | √                     | Unique Product           | √ | Marketing Advantage                 | √ | Economy of Scale       | √ |
| <b>REACTIVE FACTORS</b> |                       |                          |   |                                     |   |                        |   |
| Risk Diversifications   |                       | √                        |   | External Sales of Seasonal Products |   |                        | X |
| <b>APPROACHES</b>       |                       |                          |   |                                     |   |                        |   |
| Naïve Rule              | √<br>(First strategy) | Pragmatic Rule           | X | Strategy Rule                       |   | √<br>(Recent strategy) |   |
| <b>INTERNAL FACTORS</b> |                       |                          |   |                                     |   |                        |   |
| Company Size            | √                     | International Experience | √ | Product                             |   | √                      |   |

Sources: Author's construction

In order to give the reader an overview of this study, the author has constructed a number of tables as well as a brief discussion to further explain the table above (Figure 3).

Figure 4: Motives to Internationalization

| No | Factors  | Findings |
|----|--|----------|
| 1  | <b>Internal Triggers</b>   |          |
|    | ▪ Perceptive Management  | Yes      |
|    | ▪ Specific Internal Events   | Yes      |
|    | ▪ Inward Internationalization (too little import and because company focusing more on exporting the products abroad) | No       |
| 2  | <b>External Triggers</b>   |          |
|    | ▪ Market Demand  | Yes      |
|    | ▪ Competing company  | No       |
|    | ▪ Trade Associations   | No       |
|    | ▪ Outside Experts  | No       |
|    | ▪ Additional triggers (halal product status)   | Yes      |
| 3  | <b>Proactive Factors</b>   |          |
|    | ▪ Managerial Urge  | Yes      |
|    | ▪ Unique Product   | Yes      |
|    | ▪ Marketing Advantage  | Yes      |
|    | ▪ Economy of Scale   | Yes      |
| 4  | <b>Reactive Factors</b>  |          |
|    | ▪ Risk Diversifications  | Yes      |
|    | ▪ External Sales of Seasonal Products  | No       |

*Herbs and Food Industries Sdn. Bhd.goes international: Motives*

The main reason for the Company's involvement in an international market was due to markets and customers demand (external triggers) for their products. All that was needed was the desire and determination to make it work. The Company has focused on their main business motto i.e. to provide an alternative 'halal' products in the markets especially to Muslims customers'. They have received direct inquiries from foreign countries because of their 'halal' status especially in the regions that have many Muslims population.

*"Tujuan syarikat kami mengeksport produk kami ke luar negara ialah kerana mendapat permintaan yang tinggi terhadap produk halal dari luar negara. Tambahan pula sememangnya menjadi matlamat kami untuk mengembangkan penggunaan produk halal di luar negara (Kamal, komunikasi personal, 15 Januari 2011)".*

("The main reason why our company exports our products to overseas markets is because of the high demands for 'halal' products from these countries. This also supports our sole reason for expanding our 'halal' products to overseas markets (Kamal, personnel communication, January 15, 2011).")

The Company had received several certifications from the Malaysian Health Ministry as well as from the Standards and Industrial Research Institute of Malaysia (SIRIM) that certifies their products as being healthy, quality and 'halal'. The first international market that the Company entered into was Indonesia in 1998, followed by Thailand, Singapore, Brunei, Cambodia, Saudi Arabia and the latest, being China. They started to export their products when they realized that not many food-related firms were offering 'halal' products in international business. The other reason for the Company entering the foreign market business was profit motivated.

Apart from their responsibility to produce halal products to meet consumers demand, the opportunities to sell products and receiving high profits, were the motivator to international business activities. Every year, the Company looks for new opportunities in foreign markets. The Marketing team understands that they need to compensate for the hidden costs for selling a product in a given market to gain the profit. Export agents played important roles in HFI's business internationalization, as they provided trade market information, contacts of potential buyers, contributed in negotiating deals with buyers and took care of all promotional activities (especially global web marketing) of HFI. However, inward internationalization has no relation to this study because the Company has only small import volume.

*"Kami hanya mengimport herba sebagai bahan mentah untuk menghasilkan produk syarikat dari kilang kami di Indonesia sahaja.*

*Selainnya, herba-herba tersebut didapati dari pembekal di Malaysia (Kamal, komunikasi personal, 15 Januari 2011)”.*

(“We import herbs as our main raw materials to produce our products at our factory in Indonesia. Other herbs are sourced from local suppliers in Malaysia (Kamal, personnel communication, January 15, 2011)”.)

An economy of scale is significantly related to HFI and this factor was one of the factors that helped them to gain profits and encouraged them to build a factory in Indonesia.

*“Kilang pengeluaran untuk produk syarikat yang dibina dan telah beroperasi membantu kami menghasilkan produk dalam kuantiti yang banyak dan pada kos yang rendah (Kamal, komunikasi personal, 15 Januari 2011)”.*

(“Our factory’s operational level has been optimized, thus enabling a high production level at a lower production cost (Kamal, personnel communication, January 15, 2011)”.)

The managerial role is important in internationalization of HFI and the officer agreed that managerial urge was important in choosing or selecting the right entry mode for the Company.

### **HFI: Internal Triggers and External Triggers**

The HFI’s officer agreed that sales personnel travelling abroad for business analysis need to know all the characteristics listed above, including personnel contacts in foreign country to ensure success of their business abroad. He agreed that talented and skilful sales personnel can bring back useful information to the company and indirectly helping them to plan and choose the right strategy to enter the market. Specific events such as overproduction or reduction in the domestic market can influence a company’s decision to select the correct mode of entry.

*“Bekalan untuk negara sememangnya mencukupi. Jadi, kami membuat keputusan untuk mengekport produk ke luar negara kerana bekalan bahan mentah yang banyak membolehkan kami menggandakan penghasilan produk (Kamal, komunikasi personal, 15 Januari 2011)”.*

(“The supply of our products for domestic markets suffices. Nevertheless, the company has decided to expand to overseas markets in view of the abundance of raw materials locally, thereby enabling our company to double our production levels (Kamal, personnel communication, January 15, 2011)”.)

HFI imported several herbs from Indonesia to use as basic ingredients in their products. But they don't have any problems in importing these herbs for their operations. However, the Company depended on the external markets and customers demand in the internationalization process and he did mentioned that the Company did not see any connections between import and export activities as trigger factors for HFI. The Company was known among international customers because of their unique (halal) status and quality products, coupled with accreditation by the Malaysian Health Ministry and SIRIM. So, the author can state that factors such as its halal status, quality and unique products as well as great or large market demand from foreign country, have triggered the Company entering into international business activity.

Nevertheless, HFI did not agree with the author's statement above because the Company had entered the foreign market due to their business motto i.e. to offer an alternative product (halal food) to customers. Moreover, presently not many companies are offering halal food products in the world as offered by HFI.

*“Permintaan yang tinggi terhadap produk halal membantu kami meningkat keluaran syarikat di luar negara (Kamal, komunikasi personal, 15 Januari 2011)”*.

(“The high demand for ‘halal’ products overseas has enabled our company to increase production levels (Kamal, personnel communication, January 15, 2011)”.)

During the economic down turn in 1998, the Company's business performance was not really affected compared to the other companies in similar category. Its sales figures faced a slight decrease but could still maintain and stay competitive in the international market. Other external trigger factors that can influence a company's decision to involve abroad are trade associations or conventions. However, HFI was not associated with any trade associations, but they obtained information from export agents registered with their company to get data's on potential customers in foreign markets. Export agents were registered and became HFI's members, acting as informers in providing information on customer needs. Usually, export agents for the Company included Malaysians who are staying in foreign countries and Malaysian students studying abroad.

*“Kami tidak menyertai mana-mana persatuan perdagangan atau menggunakan pakar luar untuk memasuki pasaran antarabangsa. Tetapi kami lebih bergantung kepada pengalaman pegawai kanan dan pengurusan atasan yang telah melawat pasaran tersebut sebelum memasukinya (Kamal, komunikasi personal, 15 Januari 2011)”*.

(“We have not joined any associations nor have engaged any foreign industry experts before venturing overseas, rather we have relied on the experiences of our top management and senior officials who have

studied the overseas markets in-depth before deciding to venture abroad (Kamal, personnel communication, January 15, 2011).")

The proactive factors explained the Company's motivation in changing their strategy to seek new potential markets for the unique products produced. It helped the Company to act passively on threats that they might face in international business activity over time. The managerial urge explained the perceptions of the Company's ability to enter foreign market would influence the decision of entering a new foreign market.

*"Sememangnya terdapat komitmen dan kesungguhan daripada pihak pengurusan atasan untuk memasuki pasaran antarabangsa (Mohamad Kamal, personnel communication, January 15, 2011)".*

("There have been strong commitment and high intention from our high level management to venture to overseas markets (Kamal, personnel communication, January 15, 2011).")

This Company could relate to this factor but to them the more important urge was company sellers. It was important to the Company to have excellent sellers and be able to identify new ideas and solicit new business opportunity in foreign markets. HFI realized that good sellers with their valuable knowledge about foreign markets were important to the Company in understanding foreign customers need and demands. Apart from that, loyal sellers were also valuable to HFI in terms of knowledge that they brought back to the Company and directly enabled HFI's management teams to understand the foreign markets characteristics.

*"Ahli-ahli kami yang berada di luar negara membantu kami dari segi memahami peraturan dan undang-undang supaya produk yang hendak dipasarkan di negara-negara tersebut berjalan lancar (Kamal, komunikasi personal, 15 Januari 2011).*

("Our overseas counterparts have greatly assisted and advised our company in understanding the intricacies of doing business overseas, in areas such as the legal systems and regulations, so that our products could enter these markets with ease (Mohamad Kamal, personnel communication, January 15, 2011).")

Unique product was an advantage to the Company. 'Halal' food status for their entire product allowed the Company easy access to enter new foreign markets. HFI has ensured that the products maintained its uniqueness because in today's technology, irresponsible people could easily replicate their products.

*"Persaingan dengan syarikat lain tidak menjadi faktor kami memasuki pasaran antarabangsa sebaliknya keunikan produk berstatus halal yang*



*memberi motivasi kepada kami untuk mengekspor produk ke luar negara (Kamal, komunikasi personal, 15 Januari 2011)”.*

(“The main factor why we are motivated to enter the export markets is due to the uniqueness of the ‘halal’ products itself rather than the competitiveness of other peer companies (Kamal, personnel communication, January 15, 2011”).)

The Company could be related to economies of scale factor. Fixed costs can spread out over the foreign markets as compared to staying in market. However, this situation could give them advantages because once they commenced operations in foreign markets, their products became more competitive due to the lower costs.

*“Tidak dinafikan memasarkan produk ke luar negara dapat mengurangkan risiko kebergantungan pada jualan pasaran tempatan (Kamal, komunikasi personal, 15 Januari 2011)”.*

(“It cannot be disputed that revenue from export markets can help reduce over dependence on sales from domestic markets (Kamal, personnel communication, January 15, 2011”).)

An economy of scales has encouraged the Company to build its own factory and operations office in Indonesia. HFI agreed that this factor was an important consideration as well as an advantage to spread their risks. The Company has continued to evaluate foreign market characteristics and demands constantly because of changing factors changes over time. They also agree and believe that if sales declined in one market it could have been better in other markets. The last reactive factor is external sales of seasonal products. However, this factor was not related to HFI at all in selecting the mode of entry. Some companies may have seasonal products depending on seasons to enter the market since different market demands of a product have different periods in time. But this seasonal situation was not experienced by HFI.

*“Produk kami diminta sepanjang masa dan tidak ada permintaan berdasarkan musim-musim tertentu (Kamal, komunikasi personal, 15 Januari 2011)”.*

(“Our products are on demand throughout the year and not on seasonal basis (Kamal, personnel communication, January 15, 2011”).)

Figure 5: Approaches

| No | Approaches            | Findings                          |
|----|-----------------------|-----------------------------------|
| 1  | <b>Naïve Rule</b>     | Yes<br>(Company’s first strategy) |
| 2  | <b>Pragmatic Rule</b> | Yes                               |

3 **Strategy Rule**

Yes  
(Company's recent strategy)

*Herbs and Food Industries Sdn. Bhd: Rules and approaches to foreign markets entry*

HFI faced big challenges in selecting the right approaches in their mode of entry. The Company had only one mode of entry, i.e. export as a mode of entry. This happened because of variations in their international experience were variations within the entry mode. The Company first mode of entry was export. They used export agents as means of selling their products in the foreign markets. Export agents would take commissions for exporting goods and export merchants. They would buy the goods from HFI and brought the products back to their home country. This strategy is similar to the naïve strategy explained by Root (1982). Apart from that, the Company would offer scholarships to potential students studying overseas and in reciprocity; the students would provide market information needed by the management teams. The first group of students went to China pursuing their first degree and because of their communication skills in Mandarin, were able to provide information on local customer needs and demands in food industries. After that, HFI built their own factory and operations office in Indonesia because the Company saw great potentials in the Indonesian market. This mode of entry enabled a high degree of control in the operations and the ability to know the consumers and competitive environment.

In summary, the Company adopted mixed strategy rules in selecting their mode of entry because after evaluating the most appropriate strategy before enter foreign market, started their international business with naïve strategy, namely export method. Naïve rules was used as the first strategy because export agents were the simplest entry mode compared to others and because of their small sized and limited resources at the beginning of their international business activity.

Figure 6: Internal Factors

| No | Factors                         | Findings |
|----|---------------------------------|----------|
| 1  | <b>Company Size</b>             | Yes      |
| 2  | <b>International Experience</b> | Yes      |
| 3  | <b>Product</b>                  | Yes      |

*Herbs and Food Industries Sdn. Bhd: Internal factors influence foreign markets entry selection.*

Figure 6 above showed the internal factors that influenced the Company in the selection of mode of market entry. The respondent selected had agreed, more or less, to all the internal factors. Size was the main factor relating to the internal factors influencing the Company's selection of the mode of entry. International experiences, especially among the marketing executives and top management officers, helped a lot to the Company to choose the best mode

of entry that suited with the Company's positions (financial and experience). The product itself was also considered as internal factors in determining mode of entry selection for HFI. In other words, these three factors were valuable factors that helped and guided the SME's in their new foreign market entry selection.

## **5. DISCUSSIONS AND CONCLUSION**

The three (3) objectives of this study have been met, i.e. to explain the motives that influence business internationalization among SME's, to describe the mode or approach uses by SME's to expand their business in foreign markets and lastly, to explain the internal factors that influence the decision by SME's in the selection of market entry mode.

### **5.1 How can the factors that motivate SME's internationalization be described?**

Finally, several conclusions can be drawn in the study concerning SME's motives for internationalization, such as:

- i. The main motives why SME's internationalize their company are to fulfil the demands from foreign customers and to gain profits. Demands for halal status products have now become more accepted in the world of international business today.
- ii. SME's also internationalize their company to spread the business risks and act as backup when sales and profits decline in another markets.
- iii. Managers and export agents / seller relationships are very important as motives of internationalization of SME's. Export agents / sellers also helps SME's to seek new potential customers, new contacts, provide information to the company and as a mechanism for SME's to be involved in international networking.

### **5.2 How can SME's approach to foreign market entry mode selection be described?**

Certain specific conclusions concerning SME's approaches to foreign market entry selections are stated below:

- i. SME's features of having limited resources and small-sized firms are the factors influencing SME's in selection of mode of entry to foreign markets.
- ii. SME's more often used mixed strategies in their approaches when deciding to enter a foreign country.

### **5.3 How can the influence of internal factors on SME's market entry mode selection be described?**

This study shows three internal factors influencing selection of mode of entry by SME's. The factors included *company size*, *international experience* and *products*.

Final conclusions concerning the internal factors influencing SME's foreign entry mode:

- i. The major advantages for selecting export as a mode are easy, cheaper and low risk compared to other modes of entry.
- ii. Export mode was used as a first strategy in foreign market before SME's select the complex mode, such as Foreign Direct Investment.
- iii. Major disadvantages on export mode strategy are lack of control by home country management because of long distance to the host market.
- iv. The most important internal factors influencing SME's decision in selecting a mode of entry to the foreign market are company size, international experience and unique product.

### **Implications for Managers and Future Research**

Several interesting topics for future research within the above topic:

- i. External factors that influence SME's in selecting the most suitable mode of entry for their firms.
- ii. Export agent roles in determining SME's success in foreign markets, since our study shows that there are strong relationships between managers and foreign agents to obtain information's about target markets.

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