

## **Becoming International: Are Malaysian Architectural Firms Ready to Take the Challenges?**

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*Malaysian architectural firms are being increasingly encouraged to internationalise their business operations due to market liberalization factors but they are often perceived to lack expertise in terms of internationalisation. This paper presents the outcomes of an empirical investigation to explore and identify characteristics that Malaysian architectural firms need in order to compete internationally. Empirically data were obtained from a survey of 56 architectural firms registered with the Board of Architects Malaysia (BAM) ranging from sole proprietorships, partnerships and corporate bodies. To obtain a better understanding of this dynamic issue, depth interviews were also conducted with senior managers from a sample of 25 firms. The findings indicate that although management realise the importance of an international presence, this has not necessarily been translated into direct investment yet. Key impediments and barriers are the small size of architectural firms, perceived risks involved in expanding abroad, limited international exposure, and lack of international contacts. Meanwhile, despite the trend of market liberalisation, business opportunities are being lost. An agenda for managerial action is suggested.*

Field: International Business

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## Background

As the world spins into the first decade of the twenty-first century, dramatic and swift transformations are taking place in the global economic and international trade arenas including: massive expansion in terms of regional economic integration, liberalisation of the global market, global trade policy reforms, domestic deregulation, and increasing connectedness with potential customers, suppliers, and business partners due to major advances in communication, transportation and information technologies (Hill, 2007; Shenkar and Luo, 2004; Keegan, 2002). This scenario has led to the emergence of a highly dynamic business environment and widening the scope of activities for many businesses of diverse types.

Despite these international business transformations, there are still many firms who refuse\* to take on the challenge to internationalise their business operation or to export their products or services to a foreign market (Barrett and Wilkinson, 1985; Axinn, 1988). This has placed them in some disadvantages of even threat vis-à-vis their competitors who have opted for more a global business strategy and international business approach. Firms who are internationally orientated and with an overseas presence are perceived to have an advantage in various aspects such as the opportunity to generate more or additional revenue, increasing market share, spreading business risk, accessing other distribution channels taking advantage of variable product or service life cycles and/or just to be more internationally-oriented (Czinkota and Ronkainen, 2001). Reaping these advantages is not a trouble free task but one hindered by numerous obstacles pertaining to internal and external factors (Leonidou, 2004; Fillis, 2002). These obstacles are responsible for reasons of why some small indigenous firms, particularly firms in an emerging market who may view internationalisation or exporting activity with skepticism or fear and may indeed refuse to engage in international business operations.

## Barrier to Internationalise

International expansion of firms has been a subject of research interest for some time now, and various theoretical and empirical perspectives have been shown to be applicable to different situations (Andersson, 2004). Among important explanations offered by various researchers in the study of international business is the behaviour of some firms toward international business operations and who may perceive substantial barriers to internationalise their business activity in foreign countries (e.g., Morgan, 1997; Campbell, 1996; Leonidou, 1995; Katsikeas and Morgan, 1994). According to Leonidou (2004) barriers to internationalise refer to all those constraints that hinder the firm's ability to initiate, develop, or sustain business operations in overseas markets. Therefore, as

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\* Perhaps for strategic reasons – i.e. managerial decision making; or in many instances because of a fear of taking unnecessary risk where training and further knowledge of international opportunities may be required.

stressed by Dichtl et. al. (1984), before firms can internationalise, a 'threshold fear' must be overcome. However, the findings tend to be inconclusive. For example, Doyle and Schommer (1978) found no difference between exporters and non-exporters in their perceptions of barriers to export yet Bilkey's (1970) results suggest that non-exporters who have explored export opportunities perceived greater obstacles to export than non-exporters (Bilkey, 1970). Kedia and Chhokar (1986) found that there are differences in behaviour between non-exporters and exporters regarding perceived export barriers. Non-exporters were found to be inhibited more by factors associated with knowledge of overseas markets, export procedures and foreign business practice, while marketing-related factors dominated the perceptions of exporters. A large number of studies used the dichotomy exporter/non-exporter as a proxy for export experience (e.g. Yaprak, 1985; Dichtl et. al. 1986; Keng and Juan, 1988).

Johanson and Vahlne (1977) theorised that among the most important obstacles to the internationalisation of the firm are lack of managerial knowledge, expertise and resources. His research concluded that managerial disinterest in exporting, a disinterest that can be attributed to inaccurate assessment or lack of knowledge of international market opportunities, is a decisive barrier to export initiation and commitment. In an early study of export barriers, Alexandrides (1971) found that the main difficulties experienced when endeavoring to initiate exports were increased competition in international markets, lack of internationalisation knowledge, problems in selecting potential foreign markets and unfamiliarity with export payment process and procedures. Leonidou (2000, 1995b), Kedia and Chhokar (1986), Bauerschmidt, Sullivan, and Gillespie, (1985) determined other common reasons underlying barriers to internationalise cited as attitudinal, structural, procedural and operational. Other researchers such as Fillis (2002), Manolova et. al. (2002), Campbell (1996), Barrett and Wilkinson (1986), identified several factors which act as latent barriers to internationalise such as negative perceptions of management towards export, no support from government and official agencies, lack of understanding about foreign business practices and policies, lack of export assistance programs and so forth. Generally, barriers to internationalise can be categorised into five broad areas: financial, managerial, market-based, industry specific and firm specific (Shaw and Darroch, 2004).

A significant amount of research exists regarding internationalisation and export/non-export barriers has attempted to identify and evaluate behaviour of firms from a Western countries perspective and predominantly from within the manufacturing sector (see example Shaw and Darroch, 2004; Fillis, 2002; Bauerschmidt et. al., 1985; Bilkey and Tesar, 1977). Much less attention has, however, been paid to the research concerning this issues in emerging economies, and/or the services sector in particular. Wood and Goolsby (1987) pointed out that companies in dissimilar industries face distinct environments that require unique kinds of information to guide their export decisions. Kedia and Chhokar (1986) also stressed that factors that initiate export activity in one industry may not have the same effect in another.

In relation to these issues, this research attempts to examine empirically perceptions of senior managers or executives in architectural firms in Malaysia regarding factors impeding the initiation to internationalise or export. Specifically, the objectives of this study were to determine the severity of internationalisation or export barriers perceived by managers within these firms. This study is expected to contribute to a better understanding of the barriers to internationalise from the viewpoint of managers within service firms in emerging economies and Malaysia in particular. To this end, the paper first reviews the relevant literature. The research methodology is then described, followed by analysis of the findings. Finally certain conclusions are derived from the research, as well as specific implication for firms, policy makers, and researchers.

## **Research Methodology**

### *Research Design*

The study is descriptive in nature. Descriptive research is considered to be more appropriate for this study because its objective is to determine the barriers faced by managers and/or executives in Malaysian architectural firms in relation to their international business activities.

### *Sample and questionnaire*

The method followed was pluralistic, with both quantitative and qualitative elements (Arndt, 1985). According to the Board of Architects Malaysia (BAM), there are three types of registered architectural firms ranging from sole proprietorship, partnership, and body corporate. In order to collect primary data for this study, we first designed a structured questionnaire. We then interviewed eight randomly selected architect firms to pre-test the questionnaire and make necessary amendments or respond to recommended contents (Oppenheim, 1992). Ambiguous questions were then reworded. A revised questionnaire was finalised. Respondents were asked a series of questions, drawn from the literature, relating to the internationalisation behaviour of their firms. In particular, firms were asked to give details of problems encountered relating to internationalisation or export barriers. A representative random sample (Cohen and Holiday, 1982; Bryman Cramer, 1997) of 161 architectural firms was selected from the BAM lists, with cross checking carried out to ensure sample units were not repeated. The questionnaires were mailed to the principal (of sole proprietor firms), partners (of partnerships) and managing director (of bodies corporate). Of the 161 questionnaires sent, 56 replies were received, reaching a response rate of 34.78 percent (Madsen and Moeschberger, 1986). Table 1 shows the breakdown of respondents. Despite being approached by the authors several times, the firms that did not answer the questionnaire all claimed that they did not have time to do so. The response rate was nonetheless consistent with those of previous studies using Malaysian companies (Ching, 1997; Leong,

1996). Generally, there was no significant difference in characteristics of respondents and non-respondents.

Table 1:  
Breakdown of Respondents by the Type of Practice

Type of Organisation	Questionnaire Distributed	Percentage	Questionnaire Usable	Percentage
Sole Proprietor	123	76.40	45	80.36
Partnership	15	9.32	5	8.93
Body Corporate	23	14.28	6	10.71
Total Respondents	161	100	56	100

### *Interviews*

To obtain a better understanding of issues being investigated, an interview was also conducted with 25 managers in architectural firms who had responded to the questionnaire. An 'interview guide' was used to ensure that important matters were not missed. Each interview took between 35-60 minutes, and were digitally recorded with the approval of the interviewees, carefully listened to, and transcribed verbatim.

### **Interpretation of Research Findings**

Among the barriers for Malaysian architect firms was that of firm size – the respondents perceive that their firms are too small to internationalise. Most of firms in the survey are small in size where the total number of employees is less than 30. Only 16 per cent or 9 firms out of 56 had 30 employees or more. However, research into the internationalisation of firms has shown that small firms are just as capable of being successful in international markets as large firms such that size may be an excuse for not internationalising rather than a reason (Knight and Cavusgil, 1996). Calof (1994) has also concluded that size is not necessarily a barrier to internationalisation. In terms of market knowledge, the majority respondents (73.4 per cent) have been in existence for less than 15 years of operations. Only 5 firms have been in the industry for more than 21 years. By comparison of their counterparts in more developed countries, it is perceived that these firms are still new and young in the industry. Table 2 gives an overview of the firm characteristics.

Table 2:  
Overview of Firm Characteristics

Number of Employees	1-10	11-20	21-30	31-100	Total
Companies	32	13	4	7	56
Age of Firms	1-10 yrs	11-20 yrs	21-30 yrs	31-100 yrs	Total
Companies	25	26	1	4	56

Over half of the managers (55 per cent) surveyed admitted that they have made no foreign business trips either by their own or followed trips organised by government trade agencies. Indeed, 55.4 per cent of managers surveyed indicated that their firm has not spent any time at all on international work assignments. This indicates that managers of Malaysian architectural firms do not possess – as yet – a positive orientation toward the internationalisation of their service offering. Based on the survey, Table 3 shows the list of obstacles that inhibits Malaysia architectural firms to internationalise.

Table 3:  
List of Obstacles that Inhibits Malaysia Architect Firms to Internationalise

Variables	Disagreed	Agreed	Undecided
Lack of knowledge of potential market		x	
Lack of contact in foreign markets		x	
Difficulty in gaining access to international market		x	
Unfamiliar with international procedure			x
Difficulty to understand foreign business practice	x		
Political instability in potential foreign market		x	
Lack of international management skills	x		
Lack of knowledge of government export assistance program	x		
Lack of capital to internationalise business operation		x	
Cultural and language differences		x	
Lack of international experience		x	
Limited internal resources i.e. qualified architect	x		
Strong competition in international market		x	
Limited financial resources		x	
Different business practice in international market	x		

Firm too small to operate internationally		x	
Lack of access to potential foreign partners		x	
Ability to compete internationally	x		
Too occupied with domestic market	x		
No interest to internationalise	x		
Lack of firm commitment to internationalise		x	
High risks for international project			x
No interest to expand in foreign market	x		

Response from the survey indicates that generally, there are 12 identifiable barriers that inhibit Malaysian architectural firms to internationalise or export their services internationally: lack of knowledge in overseas market, lack of contact in international market, difficulties in gaining international access, political instability in some potential countries, lack of capital, cultural and language differences, lack of international experience, strong international competition, limited financial resources, small size of firms, lack of access to potential foreign partners, and lack of commitment to internationalise. Thus, apparently, Malaysian architect firms or their managers need more international exposure, knowledge and experience to overcome the possible barriers to internationalisation that seem to prevail within this market sector.

According to the respondents in the series of interviews, in most cases, interviewees did realise the importance of taking advantage of international market opportunities. Senior management was, in most cases (or claimed to be), internationally oriented with a vision and mission to expand internationally. However, lack of internationalisation knowledge and experience limits their ability to internationalise. In addition, familiarity with some international procedure in potential foreign markets was not especially deep or sophisticated. It appears from the interviews that managerial knowledge of international markets was inadequate. Thus, there appears a huge need for educative change and international exposure via training or experience which in turn would require substantial amendments to overarching business strategy.

Some of the interviewees stated that they were reluctant to engage in international business due to difficulties in finding suitable business partners in foreign markets. According to the interviewees, finding suitable partners is important in terms of providing local market information, assistance with regulatory requirements, procedures, and business connections. The nature of architectural services are often unique e.g. technically and financially as well as complex in terms of the numbers of actors involved and mode of cooperation and entirely customised-based assignments place greater pressure on the firms – who would be required not only to have reputable business partners but also possess specific skills and architectural/building and technological expertise.

Some small firms admitted that inconsistency and differences in international practices, laws, rules, actor representations, and various national and international requirements in the architectural industry were perceived to be another barrier to internationalise in this sector. To these firms, concern about international risks and uncertainty in policies requirement in some countries severely curtails their need to become involved with international business operations unless they had absolute control or *carte blanche*. For most of the firms in this study, the domestic market is still an attractive market and as such focusing in the local market is a much better and sounder strategy rather than expanding to foreign countries. Internationalisation to these managers will not only mean an expansion in operating costs, but also greater financial allocation and risk, and possibly not using to their full advantage scarce human resources. Furthermore, it has been seen that concentrating in a single market can and does lead to economies of scale.

### **Limitation of the study**

This study has been descriptive in nature and more research is required before any definite conclusions can be drawn. Among the limitation of this study are: first, the low response rate and relatively small sample size limited the range of tests employed in this study. Having only a small sample size in this study imposed severe limitations on the choice of statistical analyses and on the interpretation of results. Researchers should allocate more time to follow up the return of the questionnaires in order to achieve a higher response rate. A second limitation is that these specific findings may be peculiar to architectural firms, and this needs to be confirmed in other services sector such as hotels, insurance, tourism and others. Furthermore, more studies need to be conducted in a similar industry in other developing countries. Notwithstanding these limitations, this study hopes to make a valuable and unique contribution to international business research. Its results could help Malaysian architect firms, to refocus their strategies and realign its business policies to be more competitive and more international oriented.

### **Summary**

This paper investigates managerial perception within Malaysian architectural firms toward factors impeding internationalisation. This is an issue of paramount importance in the international arena, since the way these barriers are perceived often determine future managerial direction in international business activities and strategies. Although some of the barriers to internationalise identified in this study are similar to those identified in other research, this study is timely within the literature of emerging economies service sector firms. The study revealed that the small size of the firms, lack of contact in the international markets, limited international exposure and unfamiliarity with international procedures, are among barriers to engage in international business. However, the unique and highly personalized nature of these services and the very high perceived costs



associated with the international expansion do seem justified here. As a consequence, many smaller architectural firms in Malaysia do not – as yet – engage in international activities.

Various implications were derived from the findings of the present study which may concern policy makers. With regards to policy makers, more support and encouragement is needed to persuade these firms to attempt internationalisation activities. A key function of the industry support bodies should emphasise on encouraging these firms to participate in trade missions, identify successful firms to involve with international projects and develop joint programs with international bodies. For managers, they should enhance firms' competitiveness and build strong international networks.

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