Int. Journal of Business Science and Applied Management, Volume 16, Issue 1, 2021

How do the dynamic capabilities of Malaysian service small and medium-sized enterprises (SMEs) translate into international performance? Uncovering the mechanism and conditional factors

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Abstract

The aim of this paper is to provide empirical evidence on the mechanism and conditional factors that translate dynamic capabilities into the international performance of service small and medium-sized enterprises (SMEs) from Malaysia as a developing country. This study is underpinned by the dynamic capability view. A cross-sectional study involving 278 internationalising business service SMEs from Malaysia was implemented and the data from the study were analysed by using SmartPLS. The results revealed that dynamic capabilities in terms of technological capability and relational capital require the intervention of innovative service offerings and government facilitation in enhancing international performance. The results also indicated that the relationships were contingent upon service SMEs' entrepreneurial orientation. Our findings suggest that service SMEs may need to focus on innovative service offerings and government facilitation to improve international performance, as merely maintaining technological capability and relational capital may not yield optimum outcomes. This study contributes to the scarce literature on service SME's performance using the logic of dynamic capability. To enhance the outcomes of dynamic capability, the study proposes that dynamic capability may need to be managed alongside innovative service offerings, government facilitation and entrepreneurial orientation. The indirect and conditional impacts of innovative service offerings, government facilitation and entrepreneurial orientation complement the dynamic capability literature on the importance of supplementary factors rather than just focusing on the direct impact of dynamic capability.

Keywords: international performance; dynamic capabilities; innovative service offering; government facilitation; entrepreneurial orientation

1. INTRODUCTION

Small and medium-sized enterprises (SMEs) from around the world have become more internationalised and constituted about 30% of the world's total exports in 2015 (FedEx Express, 2015). In this regard, changes in technology (Antimiani & Costantini, 2013), logistics and transport services (Saslavsky & Shepherd, 2012), as well as a freer investment and trade climate (Huang, 2016) have contributed to the growth of trade in services (Bello, Radulovich, Javalgi, Scherer, & Taylor, 2016). Although frequently being associated with providing low-cost basic services, business service SMEs from developing countries have increasingly shown the capability to compete internationally by providing high value-added and innovative services that will contribute to international performance (Radulovich, Javalgi, & Scherer, 2018). Essentially, the business service industry is an industry under the broader service industry (den Hertog, 2000). The industry can be categorised as soft services, which require simultaneous production and consumption and is knowledge intensive (Abdelzaher, 2012; Ball, Lindsay, & Rose, 2008). It consists of firms in engineering, architectural, legal, accounting, business consulting, real estate, construction-related services, advertising, as well as other business services (Matrade, 2019). In this regard, internationalisation is important for business service SMEs for growth and survival (Javalgi, Todd, & Granot, 2011; Radulovich et al., 2018). The internationalisation of business service SMEs is also important for countries due to its linkages with economic growth, trade, employment, innovation (Bell et al., 2004) and social inclusion (OECD, 2017).

In relation to this, international performance refers to a firm's successful venture into foreign markets (Katsikeas, Piercy, & Ioannidis, 1996). It can be measured objectively and subjectively (Gerschewski, Rose, & Lindsay, 2015). Objectively, international performance relates to the ratio of revenue generated from international markets to total revenue as well as international market growth (Radulovich et al., 2018). Subjectively, it captures the perception of a firm vis-à-vis its performance in meeting the objectives set, such as in terms of profitability, market share, turnover, development of expertise, and image (Nummela, Saarenketo, & Puumalainen, 2004).

In this regard, the literature suggests that dynamic capabilities are key for creating competitive advantage, particularly in international markets which are considered dynamic and hostile (Zahra & Garvis, 2000). Dynamic capability reflects how a firm is able to create a competitive advantage by continuously reconfiguring and coordinating existing competencies and resources (Teece, Pisano, & Shuen, 1997). An essential aspect of this definition is how this configuration process is "developed, deployed, and protected" (Teece et al., 1997: p.510), which reflects the flexibility and adaptability of firms (Teece, 2014). In a way, continuous improvement of a firm's internal processes surrounding technology, (organisational and managerial) is key in creating sustainable competitive advantage (Teece et al., 1997). However, investigation into the effect of dynamic capabilities on international performance has received scant attention in the literature (Deng, Liu, Gallagher, & Wu, 2018). Previous empirical investigations have rarely investigated the mechanism in which dynamic capability can be translated into international performance through its links with innovative services and government facilitation (Radulovich et al., 2018; Teece, 2018). Questions also abound about the factors that condition the relationship between dynamic capabilities and international performance (Deng et al., 2018; Teece, 2018). The specific factors that constitute dynamic capabilities have also not been clearly identified (Teece, 2018).

Furthermore, empirical evidence about services trade and service firms' international performance is still scarce (Radulovich et al., 2018). Previous studies have focused more on the manufacturing sector (Gardó, García, & Descals, 2015) and the available studies on services have tended to focus on large service firms from the advanced economies (Radulovich et al., 2018). Given the nature of the service industry, which is different from the goods industry (Samiee, 1999), as well as the differences in competitive behaviour between large firms and small firms (Chen & Hambrick, 1995), providing empirical evidence in the context of service SMEs from developing countries is necessary for a better understanding of SMEs' internationalisation (Bello et al., 2016; Radulovich et al., 2018). This is key as applying the current understanding of international performance, which is skewed towards manufacturing SMEs as well as SMEs from developed countries, is considered not to be appropriate (Li & Hsu, 2016).

In the context of Malaysia, business service SMEs employed more than 314,000 people (DOSM, 2017) and contributed RM65 billion to value added and RM26.8 billion to exports in 2018 (DOSM, 2019). However, the Organisation for Economic Cooperation and Development (OECD) in its report in 2017 indicated that innovation is one of the weaker points for Malaysian SMEs (OECD, 2017). This resulted in low innovative offerings, which restricted the SMEs from achieving greater international performance (SME Corp., 2018). At the macro level, the low international performance among service SMEs is reflected in the persistent and growing services trade deficit for Malaysia, which stood at RM17.7 billion in 2018 as compared with a surplus of RM1.4 billion in 2010 (BNM, 2019). As such, investigation into the factors that can contribute to international performance among business service SMEs from Malaysia is pertinent in light of their need for strategies that can contribute to competitive advantage in the international markets.

In this regard, this paper is designed to contribute to the debate, bridge the identified chasms, as well as offer exciting insights for theoretical and managerial lessons by investigating the effect of dynamic capabilities, innovative service offerings, government facilitation and entrepreneurial orientation on international performance. Underpinned by the dynamic capability view, this study highlights the importance of considering supplementary factors, namely innovative service offerings, government facilitation, and entrepreneurial orientation, which may contribute to translating dynamic capabilities into international performance.

The discussions in this article are structured by, first, providing a literature review on the dynamic capability view as the underpinning theory before delving deeper into the development of hypotheses and the research framework. Next, discussions on research methodology as well as results and analysis are covered. The paper proceeds by deliberating on the findings of the study as well as its implications for theory, management, and policy. Subsequently, discussions on the limitations and future directions are provided, followed by a conclusion to encapsulate the key takeaway from this paper.

2. THEORETICAL BACKGROUND – DYNAMIC CAPABILITY VIEW

The literature has indicated the importance of dynamic capabilities in creating competitive advantage that may lead to better international performance among firms (Teece et al., 1997). Essentially, dynamic capabilities allow firms to adapt to swift-changing environments by coordinating and reconfiguring existing resources and capabilities to better sense and seize market opportunities (Teece, 2018) as theorised by the dynamic capability view (Teece et al., 1997). These include changes that need to be made in terms of operations, management, practices, as well as technologies to respond to market demands (Deng et al., 2018). The key roles played by dynamic capabilities, particularly within the realm of international market expansion, cannot be emphasised enough due to the nature of international markets that are hostile and dynamic (Zahra & Garvis, 2000). Therefore, in an environment which is constantly in a disequilibrium, firms have no choice but to mobilise their dynamic capabilities to enhance international performance (Jantunen, Tarkiainen, Chari, & Oghazi, 2018).

In this regard, there are differences between dynamic capabilities and ordinary capabilities (Deng et al., 2018). Ordinary capabilities reflect the operational capabilities, which are based on current best practices to meet current market needs, and do not take into account the future suitability of products and services (Teece, 2018). The efficiency-driven ordinary capabilities are also easily replicated and benchmarked by others (Teece, 2018). In this regard, ordinary capabilities may not support the creation of long-term competitive advantage for firms (Teece, 2018).

Conversely, dynamic capabilities are viewed as higher-level activities (Teece, 2016) undertaken by firms to respond to market dynamics, which necessitate the realignment and integration of existing resources and capabilities (Deng et al., 2018). These capabilities reside in the top management and managers of a firm (Teece, 2016). Essential to this is the embeddedness of organisational processes, routines, and managerial decisions that are not easily replicated in performing various value-creating functions (Krasnikov & Jayachandran, 2008; Teece, 2016). In addition, the accumulative nature of the capabilities, be it in terms of knowledge, skills, and understanding on how best to unlock the value of the firm's resources, are also not easily replicated (Murray, Gao, & Kotabe, 2011). The embedded nature of dynamic capabilities with organisational practices contributes to the creation of competitive advantage as rival firms may find it difficult to replicate (Krasnikov & Jayachandran, 2008). Furthermore, dynamic capabilities have been found to be particularly important as compared to resource ownership in explaining the diverse international performance (Kaleka, 2002). This is in line with the view of Day (1994), who posited that dynamic capabilities are crucial for creating a competitive advantage that will result in enhanced performance.

Although the actual factors reflecting dynamic capabilities that are key to capturing the activities of sensing and seizing international market opportunities have not been clearly identified (Teece, 2018), Al-Aali and Teece (2014) and Teece (2018) suggested that firms could leverage on technology as well as building relationships with customers and suppliers in order to sense and seize market opportunities. This is based on conceptual discussions about the ability of firms to sense and seize market opportunities by being proactive in seeking market opportunities, being willing to take risks, using technology, and building relationships with customers and suppliers as suggested by Al-Aali and Teece (2014) and Teece (2018). In a sense, technological capability and relational capital are crucial for firms in sensing and seizing international market opportunities.

Nonetheless, previous studies have not adequately taken into account the mechanism and conditional factors that translate dynamic capabilities into international performance (Teece, 2018), which will be addressed by our study. In this regard, investigating the links between dynamic capabilities (technological capability and relational capital) and international performance by taking into account the role of innovative service offerings and government facilitation as mediators promises a better understanding of the presence of factors that translate dynamic capabilities into international performance (Teece, 2018). This is in light of the conceptual discussions in the literature which suggest that ownership of technological capability will enable firms to create innovative services that will lead to international performance (Al-Aali & Teece, 2014). In the same vein, ownership of relational capital also tends to help internationalising firms in accessing government facilitation programmes that

will contribute to better international performance (Al-Aali & Teece, 2014). In addition, the role of entrepreneurial orientation as a conditional factor which moderates the relationship between dynamic capabilities (technological capability and relational capital) and innovative service offerings, as well as government facilitation, is also not well understood (Li & Deng, 2017). Nonetheless, the literature suggests that having entrepreneurial orientation tends to influence the link between technological capability and innovative services (Li & Deng, 2017) as well as relational capital and government facilitation (Leonidou, Palihawadana, & Theodosiou, 2011). This may then lead to better international performance (Acosta, Crespo, & Agudo, 2018).

3. HYPOTHESIS DEVELOPMENT AND RESEARCH FRAMEWORK

Our attempt at addressing the highlighted gaps will extend understanding concerning the importance of having dynamic capabilities (technological capability and relational capital) together with innovative services and government facilitation in enhancing international performance. In addition, having high entrepreneurial orientation is also key for firms to enhance their capability to create innovative services as well as access government facilitation programmes that will contribute to international performance. In this regard, the links between these constructs were hypothesised, and have become the basis of our study's research framework.

3.1. Mediating Effect of Innovative Service Offerings on Technological Capability – International Performance Relationship

Innovation is essential for a service industry (Prajogo, 2006). It involves the provision of new or enhanced services for the benefits of customers (Dotzel, Shankar, & Berry, 2013). It also includes implementing processes and approaches that are innovative in order to improve productivity, facilitate the delivery of services (Verma & Jayasimha, 2014), and enhance customers' satisfaction (Hitt, Hoskisson, & Ireland, 1994). Generating innovative services is therefore pertinent for service SMEs in creating sustainable competitive advantage in international markets (Prajogo & Oke, 2016; Soto, 2018). In fact, it is considered as paramount for firms in meeting the growing and changing demand of the global markets (Lee, Ginn, & Naylor, 2009).

In this regard, the literature suggests that the creation and delivery of innovative services may be impacted by technological capability as technological capability encourages knowledge exchange, idea prioritisation and innovation (Amundsen, Aasen, Gressgård, & Hansen, 2014; Nieves & Osorio, 2019). This is particularly pertinent among knowledge-based organisations such as business service SMEs in facilitating organisational learning as one of the key determinants of innovation performance (Lafuente, Solano, Leiva, & Mora-Esquivel, 2019). In fact, Li and Deng (2017) were of the view that technologically-competent firms tended to explore new technologies to create and deliver innovative products and services and connect with customers. This may result in enhanced growth and performance (Prajogo & Oke, 2016), suggesting a mediating role played by innovative service offerings in the relationship between technological capability and international performance (Bello et al., 2016).

Essentially, technological capability refers to the capability of a firm to use various technologies, including scientific knowledge and technological devices (Gao, Gao, Zhou, & Huang, 2015) in creating and delivering products and services (Afuah, 2002). This is particularly relevant as creating innovative services requires an understanding about the needs and desires of customers, which can be obtained by using technology (Kraemer & Gibbs, 2005). Also key to the use of technology in facilitating the creation of innovative services is its association with operational efficiency and effectiveness (Chatterjee, 2017). In a sense, technological capability will likely reduce any potential errors and the need to experiment with innovation (Chatterjee, 2017). In fact, technological capability tends to increase the propensity to innovate (Amara, D'Este, Landry, & Doloreux, 2016), improve quality, as well as reduce the costs of services among knowledge-intensive service firms (Camacho & Rodríguez, 2005). In a way, technological capability represents the know-how and knowledge that are necessary to create innovative products and services, as desired by customers (Chatterjee, 2017).

In this regard, the offering of innovative services is key for achieving competitive advantage, which may contribute to better international performance (Bello et al., 2016). In other words, the key to sustainable competitive advantage creation rests on the firms' ability to be the leader in creating new, or enhancing existing, services (Prajogo & Oke, 2016) as well as in providing innovative solutions (Javalgi et al., 2011). This will enable firms to employ a differentiation strategy that may lead to sustainable competitive advantage (Bello et al., 2016). Furthermore, innovative service offerings may also create sustainable competitive advantage resulting from customers' increased dependency on the services provided by firms, indicating the presence of high switching costs (de Brentani, 2001). Consequently, this creates an innovation-led barrier, which hinders other firms from competing for the same market segments (de Brentani, 2001).

In line with the literature which suggest that : 1) technological capability is key for creating innovative services; and 2) innovative services may lead to competitive advantage creation for internationalising firms, it is likely that an innovative service offering plays a mediating role in the technological capability – international performance relationship. Therefore, the following hypotheses are formulated:

H1: Innovative service offering mediates the relationship between technological capability and international performance.

H1a: Technological capability is positively associated with innovative service offering.

H1b: Innovative service offering is positively associated with international performance.

3.2. Mediating Effect of Government Facilitation on Relational Capital – International Performance Relationship

A supportive home country institutional environment is key for firms in venturing into international markets (Leonidou et al., 2011). This is in line with the literature which suggests that regulations, policies, and support programmes directed at productivity-enhancing activities may yield positive outcomes for firms (North, 1990), including in terms of internationalisation (Leonidou et al., 2011). In this regard, firms have been found to build rapport and utilise their connections with government institutions for greater access to support programmes provided by government (Oparaocha, 2015). This relationship building capability essentially reflects the relational capital of the firm (Bontis, 1999). Central to relational capital is the capability to build and maintain relationships with external stakeholders, including government agencies (Bontis, 1999), which provide opportunities for knowledge building as well as accessing external resources (Inkinen, 2015; Youndt, Subramaniam, & Snell, 2004). In the case of service SMEs, it is crucial to capitalise on close relationships with government because of their limitation of resources (Martin, Javalgi, & Cavusgil, 2017), knowledge (Durst & Edvardsson, 2012), and innovative capability (Boratyńska, 2016). In a way, maintaining relationships or networks with various stakeholders in the home and host countries, including government, is crucial for increasing market knowledge (Stoian, Rialp, & Dimitratos, 2017), improving innovative capability (Mahmood & Rufin, 2005), and enhancing international performance (Brache & Felzensztein, 2019; Suseno & Pinnington, 2017). This may facilitate internationalising firms in venturing abroad (Luo et al., 2010) by making them more competitive in competing with international players (Aggarwal & Agmon, 1990). This suggests the potential mediating role of government facilitation in the relationship between relational capital and international performance.

In this regard, relational capital ensures that the knowledge and understanding that a firm has will facilitate the creation of credibility and trust with government (Zain & Ng, 2006). This will then enhance a firm's ability to obtain information as well as access government support (Oparaocha, 2015). In addition, the capability to maintain relationships with government agencies is also key for firms in dealing with foreign policies and procedures as well as other non-trade hurdles (Brache, 2018). In a way, relational capital is vital for establishing rapport with government agencies, which may help internationalising firms in getting up-to-date information and accessing government support (Leonidou et al., 2011).

Within the context of SMEs from developing countries, support programmes provided by government are key in their internationalisation endeavour (Leonidou et al., 2011). The support programmes include financial assistance, tax-rebates, capacity and capability building, advisory services, market intelligence, as well as participation in government-led trade fairs and exhibitions (Kahiya, 2018). In this regard, government facilitation has been found to provide access to resources which facilitate the internationalisation of firms and contribute to greater international performance (Haddoud & Newbery, 2017). Existing evidence also suggests that government facilitation influences the adoption of international-led growth strategies among firms (Lu, Liu, & Wang, 2011), including small firms (Meyer & Skak, 2002). In addition, government facilitation also creates awareness about opportunities in international markets (Kahiya, 2018) and helps internationalising firms in addressing the challenges associated with venturing abroad (Volchek, Jantunen, & Saarenketo, 2013).

In line with the literature which suggest that : 1) government facilitation is key for creating international performance; and 2) relational capital may lead to greater access to government support programmes among internationalising firms, it is likely that government facilitation plays a mediating role in the relational capital – international performance relationship. Therefore, the following hypotheses are formulated:

H2: Government facilitation mediates the relationship between relational capital and international performance.

H2a: Relational capital is positively associated with government facilitation.

H2b: Government facilitation is positively associated with international performance.

3.3. Mediating Effect of Innovative Service Offerings on Government Facilitation – International Performance Relationship

The literature is cognisant of the key role played by government in fostering innovation among internationalising firms (Mahmood & Rufin, 2005). The importance of government support in fostering innovation is even more crucial in the context of SMEs from developing economies (Liu & Vrontis, 2017). With greater innovative capability, service SMEs tend to be better able to offer innovative services, and they have

viable business propositions in the international markets and create sustainable competitive advantage (Prajogo & Oke, 2016). Innovation-led barriers can then be created, which hinder other firms from competing for the same market segments (de Brentani, 2001). This reflects the importance of innovative service offerings in mediating the relationship between government facilitation and international performance.

In this regard, the literature suggests that a home country institutional environment that is supportive and conducive helps foster innovation among firms (Szczygielski, Grabowski, Pamukcu, & Tandogan, 2017). This is in line with the literature which suggests that regulations, policies, and support programmes which are directed at productivity-enhancing activities may yield positive outcomes for firms (North, 1990), including in terms of innovation and internationalisation (Mahmood & Rufin, 2005). The importance of government support in fostering innovation is even more crucial in the context of SMEs from developing economies (Liu & Vrontis, 2017) in light of the constraints facing these SMEs with regard to resources, capabilities, knowledge, and innovation (Boratyńska, 2016; Martin et al., 2017). In a way, the support provided by government may assist internationalising SMEs in creating innovative services (Prajogo & Oke, 2016). This may then contribute to the creation of competitive advantage (Bello et al., 2016), which will enable the SMEs to meet the growing and changing demands of the global markets (Lee et al., 2009). In essence, offering innovative services is key for enhancing international performance (Prajogo & Oke, 2016).

In line with the literature which suggest that: 1) an innovative service offering is key for creating international performance; and 2) government facilitation enhances internationalising firms' ability to provide innovative services, it is likely that an innovative service offering plays a mediating role in the government facilitation – international performance relationship. Therefore, the following hypotheses are formulated:

H3: Innovative service offerings mediate the relationship between government facilitation and international performance.

H3a: Government facilitation is positively associated with innovative service offerings.

H1b: Innovative service offerings are positively associated with international performance.

3.4. Moderating Effect of Entrepreneurial Orientation on Technological Capability – Innovative Service Offerings and Relational Capital – Government Facilitation Relationships

The literature has suggested a positive relationship between technological capability and the creation of innovative products and services (Castaño, Méndez, & Galindo, 2016). Nonetheless, this positive relationship may hinge on the presence of entrepreneurial orientation, which will supplement the ownership of technological capability in influencing innovative outcomes (Li & Deng, 2017). This is particularly relevant for firms venturing into international markets, which are characterised by constant disequilibrium in such areas as market environments, technologies, and changing demands (Lee et al., 2009). While the ownership of technological capability can help firms in using various technologies in their business operations, which may contribute to the creation of innovative products and services, the effect may be limited. Firms that are only equipped with technological capability may put emphasis only on delivering services based on current customers' needs and may not pay much attention to new and emerging services, including those that cannot be described by customers (Li et al., 2008). This limitation can be overcome by supplementing technological capability with an entrepreneurial orientation, which essentially reflects the proclivity of the firm to be proactive, innovative, and willing to take risks (Lumpkin & Dess, 1996). Thus, having an entrepreneurial orientation can make a difference for internationalising firms in enhancing innovation strategies that will contribute to higher international performance (Ndubisi, Capel, & Ndubisi, 2015).

In a way, entrepreneurially-orientated firms are more supportive of new ideas and creative processes in discovering and creating future services (Lumpkin & Dess, 1996). Entrepreneurially-orientated firms are also willing to review existing operations that yield diminishing returns and commit resources and debt to seize opportunities for higher returns (Javalgi et al., 2011). In fact, Schumpeter, the father of entrepreneurship, posited that entrepreneurship is closely linked with innovation and disruption (Sweezy, 1943). Essential to this notion is the ability of firms to spot opportunities, assess the associated threats, and make the necessary alignment concerning resources and capabilities in introducing new and innovative services (Jogaratnam, 2017). This may then give the firms superior performance relative to their competitors (Jogaratnam, 2017). In other words, the quality of the relationship between technological capability and innovative service offerings tends to be better if it is supplemented with entrepreneurial orientation (Atuahene-Gima & Ko, 2001). This implies that entrepreneurial orientation is likely to positively moderate the relationship between technological capability and innovative service offerings. Therefore, it is hypothesised that:

H4a: Entrepreneurial orientation moderates the relationship between technological capability and innovative service offerings, whereby in higher entrepreneurial orientation conditions, the influence of technological capability on innovative service offering is stronger.

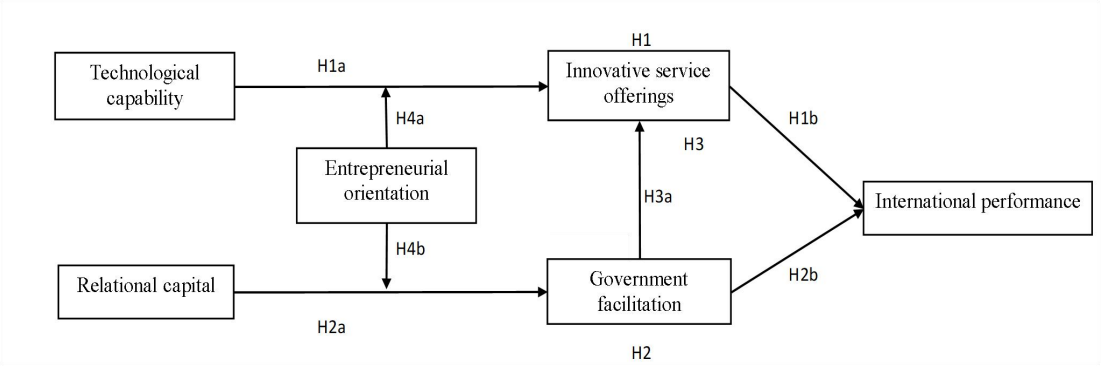
The literature also suggests a positive link between relational capital and government facilitation (Senik, Scott-Ladd, Entrekin, & Adham, 2011). Essentially, relational capital contributes to the creation of credibility and trust, which will facilitate internationalising firms in getting greater access to information and support programmes provided by government (Zain & Ng, 2006). In this regard, the extent of the influence of relational capital on government facilitation may be limited. Firms with relational capital only tend to focus on establishing relationships with government for the purpose of getting information and accessing the support programmes provided (Oparaocha, 2015). These firms, however, tend to miss the opportunities of working hand in hand with government in creating new and innovative services, exploring future market opportunities, and addressing the challenges associated with venturing into international markets. This limitation may be addressed by supplementing relational capital with entrepreneurial orientation. In a way, entrepreneurial orientation contributes to facilitating firms in accessing government support programmes, which may then lead to better international performance.

In this regard, entrepreneurial orientation, which reflects the proactive, innovative, and risk-taking nature of firms, tends to increase the likelihood of internationalising firms to be more forward looking in tapping government networks for the purpose of creating new and innovative services (Mahmood & Rufin, 2005). Entrepreneurially-orientated firms also tend to be more open towards taking risks and proactive in sensing and seizing opportunities (Acosta et al., 2018). In a way, the combination of relational capital and entrepreneurial orientation may assist internationalising firms in optimally utilising government support programmes for creating higher international performance (Leonidou et al., 2011). This suggests that entrepreneurial orientation is likely to positively moderate the relationship between relational capital and government facilitation. Therefore, it is hypothesised that:

H4b: Entrepreneurial orientation moderates the relationship between relational capital and government facilitation, whereby in higher entrepreneurial orientation conditions, the influence of relational capital on government facilitation is stronger.

In summary, we hypothesise that dynamic capability in terms of technological capability and relational capital is indirectly linked to international performance through innovative service offerings and government facilitation respectively. At the same time, the ability of dynamic capability (technological capability and relational capital) to bring about positive outcomes (innovative service offerings and government facilitation) is also conditional on the SME's entrepreneurial orientation. The expected relationships between the factors discussed in the previous paragraphs are captured in the research framework of our study in Figure 1.

Figure 1: Research framework



4. METHODOLOGY

4.1. Population and Sample

The population of our study is internationalising Malaysian business service SMEs. The focus on business service SMEs from Malaysia is due to their significant contribution to the economy, employment, value added and trade (DOSM, 2019; EPU, 2015). Malaysian business service SMEs have also been increasingly involved in the international markets (SME Corp., 2018). The latest economic census indicated there were 34,000 business service SMES in Malaysia (DOSM, 2017). However, not all of these SMEs are involved in internationalising (Matrade, 2019). In this regard, this study is aware that a complete list of business service exporters is not

currently available (Rusiah Mohamad, personal conversation, 18 September 2019). Nonetheless, Matrade, an export development agency for Malaysia, maintains a Service Exporters' Directory which indicates that 1,734 business service SMEs were registered. The listed business services SMEs in the directory were treated as the population of the study. The sample size was then determined based on power analysis as suggested by Henseler and Chin (2010). The result of the power analysis generated from the use of G*Power 3 software by Faul, Erdfelder, Lang, and Buchner (2007) indicated the minimum sample size was 172.

The current study used a non-probability sampling technique based on two grounds. Firstly, a complete sampling frame of business service SMEs exporters is not currently available as not all service exporters are listed in Matrade's Service Exporters' Directory. Furthermore, there were instances of the information about the companies in the directory being out of date and inaccurate. Hence, the use of non-probability is appropriate in line with the view of Rowley (2014) that in the absence of a complete sampling frame, studies should use non-probability sampling. Secondly, non-probability sampling is appropriate in studies which tend to suffer from a low response rate, which may lead to potential bias (Rowley, 2014). This is particularly true for studies on SMEs as previous studies have suffered from a low response rate of 93 (Subramaniam & Youndt, 2005), 102 (Rodríguez-Serrano & Martín-Armario, 2017), and 120 (Prange & Pinho, 2017). In this regard, a purposive sampling method was used involving internationalising business service SMEs.

The respondent firms were chosen based on three criteria, namely: i) internationalising business service SMEs which recorded yearly revenue of less than RM20 million and a headcount of less than 75 people as prescribed by SME Corporation, a government agency for SME development in Malaysia (SME Corp., 2013); ii) those registered with Matrade; and iii) those that participated in exporting events organised by Matrade. A self-administered survey was distributed involving key individuals who have in-depth knowledge about the firm, such as owners, founders, chief executive officers, and managers. The survey instrument was pre-tested with a total of ten experts consisting of academics, government agencies, and industry. The experts suggested the inclusion of four new items under government facilitation, namely: i) access to financial assistance; ii) network with foreign governments; iii) network with foreign firms; and iv) platforms to discuss industry needs. Subsequently, the authors further tested the survey instrument by conducting a pilot study involving 60 SMEs which participated in the productivity nexus initiative spearheaded by the Malaysia Productivity Corporation, a government agency for productivity development. This process helped us refine the survey instrument.

Realising that conducting surveys with SMEs tend to suffer from low response rates (Dennis Jr., 2003), the researcher collaborated with Matrade to ensure that an optimal number of responses was obtained. Matrade provided a support letter and facilitated the participation of the researcher in exporting events organised by Matrade. During the events, potential respondents were asked about their type of industry to ensure they were the appropriate respondents for the study. Hard-copy questionnaires were then distributed using a face-to-face technique. The study's respondents were given a token of appreciation in the form of a mobile phone cable. Overall, the authors participated in 13 events, at which 800 questionnaires were distributed, which yielded 337 responses. After eliminating responses with high missing values, inconsistent responses, and responses from non-SMEs, only 278 of the responses were usable.

4.2. Measurement of Instrument

The constructs of this study were measured using the measurements of prior studies. In this regard, technological capability was measured by using five items adapted from Knight and Cavusgil (2004) with a composite reliability (CR) of 0.70. In addition, one item from Zou, Liu, and Ghauri (2010) was added in the measurement of technological capability to reflect the role of firms in encouraging innovative ideas and their implementation. Relational capital was measured by adapting three items from Radulovich et al. (2018) with a CR of 0.95. We also included another three items adapted from Luo, Hsu, and Liu (2008) to measure relational capital to reflect the importance of building networks with government, trade associations, and regulatory bodies, with a Cronbach alpha (α) of 0.73. The scale of innovative service offerings was adapted from Bello et al. (2016), with a CR of 0.88.

Government facilitation was measured by adapting the measures used by Leonidou et al. (2011) involving three dimensions, namely information sharing, which recorded a CR of 0.89, education and training (CR=0.87), and trade mobility (CR=0.81) (Leonidou et al., 2011). Entrepreneurial orientation was measured by adapting the measures from Jantunen, Puumalainen, Saarenketo, and Kyläheiko (2005), with the Cronbach alpha (α) being 0.74. International performance was measured by using objective and subjective measures to reflect the multifaceted nature of international performance (Madsen & Moen, 2017). Objective measures were adapted from Radulovich et al. (2018), with a CR of 0.8. Subjective measures were adapted from Nummela, Saarenketo, and Puumalainen (2004), with a Cronbach alpha (α) of 0.69. The list of the variables and their indicators is attached in Appendix 1. For all of the constructs, a seven-point Likert scale was used indicating 1=strongly disagree, and 7=strongly agree. Technological capability, relational capital, and innovative service offerings were reflectively measured, while entrepreneurial orientation, government facilitation, and international performance were formatively measured.

4.3. Exploratory Factor Analysis

We conducted exploratory factor analysis (EFA) for government facilitation, which indicated the items loaded on three factors. Items GF1, GF2, GF3, GF4, GF5, GF6, GF7, GF9, GF10, GF11 were loaded on Factor 1, which reflects the role of government in sharing market information and knowledge. Hence, Factor 1 was named 'information sharing'. Meanwhile, GF13, GF14, GF15 were loaded on Factor 2, which corresponds with the role of government in providing trade facilitation, hence Factor 2 was named 'trade facilitation'. Items GF16, GF17, GF18, and GF19 were loaded on Factor 3, which reflects the role of government in providing a network, hence Factor 3 was named 'network'. While the dimensions of information sharing and trade facilitation correspond with the dimensions as suggested by Leonidou et al. (2011), the EFA uncovered a new dimension involving the government's role in creating a network with foreign governments and foreign firms. Perhaps, in the context of Malaysian service SMEs, networking with foreign governments and foreign firms are among the areas that are being spearheaded by government, which paved the way for the SMEs to explore market opportunities.

4.4. Data Analysis

Statistical Package for Social Sciences (SPSS) was employed for conducting descriptive analysis, while Partial Least Squares Structural Equation Modelling (PLS-SEM) was used to test the hypotheses of the study (Ringle, Wende, & Becker, 2015). The decision to use PLS-SEM was based on its predictive ability (Ramayah, Cheah, Chuah, Ting, & Memon, 2018), its ability to deal with reflective and formative constructs (Henseler, Hubona, & Ray, 2016), the complexity of its model (Ringle, Sarstedt, Mitchell, & Gudergan, 2018), and its applicability in management-related studies (Rigdon, 2016). We used confirmatory factory analysis for assessing reflective constructs (technological capability, relational capital, innovative service offerings) and confirmatory composite analysis for formative constructs (entrepreneurial orientation, government facilitation, international performance) (Hair, Hollingsworth, Randolph, & Chong, 2017). The measurement model assessments suggested that all requirements for the reflective model were met (Hair et al., 2017; Kline, 2011), as shown in Table 1 and 2.

Table 1: Results of Reflective Measurement Model

Construct	Indicator	Loadings	Average Variance Extracted (AVE)	Composite Reliability (CR)
Technological capability	TC1	0.847	0.701	0.933
	TC2	0.897		
	TC3	0.875		
	TC4	0.809		
	TC5	0.849		
	TC6	0.738		
Relational capital	RC1	0.859	0.764	0.951
	RC2	0.882		
	RC3	0.859		
	RC4	0.887		
	RC5	0.866		
	RC6	0.892		
Innovative service offerings	ISO1	0.854	0.759	0.926
	ISO2	0.864		
	ISO3	0.905		
	ISO4	0.861		
GFInfo	GF1	0.808	0.764	0.970
	GF2	0.878		
	GF3	0.812		
	GF4	0.901		
	GF5	0.919		
	GF6	0.891		
	GF7	0.905		
	GF9	0.858		
	GF10	0.878		
	GF11	0.881		
GFTrade	GF13	0.929	0.885	0.959
	GF14	0.955		
	GF15	0.939		
GFNetwork	GF16	0.884	0.822	0.949
	GF17	0.941		
	GF18	0.933		
	GF19	0.866		
IP – Objective	IPObj1	0.784	0.680	0.809
	IPObj2	0.863		
IP – Subjective	IPSubj1	0.830	0.750	0.937
	IPSubj2	0.823		
	IPSubj3	0.902		
	IPSubj4	0.884		
	IPSubj5	0.889		

Note: TC=technological capability; RC=relational capital; ISO=innovative service offerings; GF=government facilitation; IP=international performance

Table 2: Results of Discriminant Validity Analysis using the Heterotrait-Monotrait (HTMT) Criterion

	GFInfo	GFNetw	GFTrade	IPObj	IPSubj	ISO	RC	TC
GFInfo								
GFNetw	0.820							
GFTrade	0.809	0.814						
IPObj	0.449	0.452	0.478					
IPSubj	0.335	0.374	0.418	0.824				
ISO	0.381	0.267	0.325	0.500	0.327			
RC	0.379	0.346	0.365	0.431	0.339	0.457		
TC	0.336	0.204	0.264	0.547	0.483	0.711	0.375	

Notes: TC=technological capability; RC=relational capital; ISO=innovative service offerings; GF=government facilitation; IP=international performance

For formatively measured constructs, entrepreneurial orientation was unidimensionally measured. The analysis showed that the construct met the requirements concerning convergent validity, collinearity, as well as the significance and relevance of the outer weights. However, items EO4 and EO5 were found to have variance inflated factor (VIF) scores of 3.614 and 3.631. While these scores were higher than 3.3 as set out by Diamantopoulos and Siguaw (2006), they are still considered to be acceptable (Hair et al., 2017). The results of the measurement model for entrepreneurial orientation appear as Table 3.

Table 3: Results of Formative Measurement Model – Unidimensional Construct

Construct	Items	Convergent validity	VIF	Outer weight	t-value	p-value
Entrepreneurial orientation	EO1	0.773	2.217	0.102	9.564	0.000
	EO2		2.295	0.126	12.842	0.000
	EO3		2.098	0.127	12.767	0.000
	EO4		3.614	0.126	15.545	0.000
	EO5		3.631	0.129	15.279	0.000
	EO6		1.986	0.127	13.406	0.000
	EO7		2.841	0.139	15.350	0.000
	EO8		2.906	0.133	17.225	0.000
	EO9		2.526	0.144	15.347	0.000
	EO10		2.013	0.145	15.997	0.000

Government facilitation and international performance were multidimensionally measured. Essentially, government facilitation met the requirements for convergent validity, VIF, as well as significant and relevant outer-weights. For international performance, the results indicated that the VIF scores were below 3.3 (Diamantopoulos & Siguaw, 2006), but the objective dimension of international performance was found to be insignificant. This dimension was nonetheless retained based on theoretical support as suggested by Madsen and Moen (2017), who argued that objective and subjective indicators of international performance are key in capturing the multifaceted nature of international performance. The results of the measurement model for the multidimensional formative constructs appear as Table 4.

Table 4: Results of Formative Measurement Model – Multidimensional Constructs

Higher order Construct	Sub-dimensions	Convergent validity	VIF	Outer weight	t-value	p-value
Government Facilitation	GFInfo	0.864	3.113	0.364	3.799	0.000
	GFTrade		2.933	0.312	4.405	0.000
	GFNetwork		3.034	0.410	4.886	0.000
International Performance	IPObj	0.856	1.514	0.100	1.935	0.054
	IPSubj		1.514	0.938	26.146	0.000

4.5. Common Method Variance

As our study used single-source respondents, we used a single method factor test to determine that common method variance (CMV) was not an issue (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003) by including three items in the questionnaire to represent a marker variable, namely: "(1) once I have come to a conclusion, I am not likely to change my mind; (2) I don't change my mind easily; (3) My views are very consistent over time" (Oreg, 2003). This marker variable was not included in the model of the study (baseline model) and was used as an exogenous construct to predict the endogenous constructs in the single method factor model. Comparing the results of the coefficient of determination (R^2) between the baseline model and the single method factor model, we found that CMV was not an issue as suggested by Tehseen, Ramayah, and Sajilan (2017).

4.6. Results and Analysis

The demographic profile of the sample SMEs of our study appears in **Table 5**. Essentially, founders/owners made up the largest portion of the respondents, at 45.3%. In terms of the types of industry, engineering services led the list with 23%, followed by architecture (20.9%), and business consulting (17.6%). As for the number of employees, the majority of the SMEs had a headcount of between 5 and 29 (47.5%). The majority of the SMEs (50%) were also considered as young companies with less than 10 years of operating experience. Interestingly, about 85% of the SMEs have successfully penetrated between 1 to 5 countries.

Table 5: Demographic Profile of Sample SMEs

	Frequency	**Percentage (%)**
Designation		
Founder/owner	126	45.3
CEO/director/top management	60	21.6
Manager/executive	92	33.1
Types of industry		
Advertising	18	6.5
Architecture	58	20.9
Business consulting	49	17.6
Construction-related	36	12.9
Engineering	64	23.0
Legal and accounting	7	2.5
Real estate	12	4.3
Others (E.g. finance, event management, ICT)	34	12.2
Number of employees		
<5	57	20.5
5 – 29	132	47.5
30 – 75	89	32.0
Years of establishment		
1961 – 1970	1	0.4
1971 – 1980	1	0.4
1981 – 1990	13	4.7
1991 – 2000	28	10.0
2001 – 2010	79	28.4
2011 – 2019	139	50.0
Missing	17	6.1
Number of countries penetrated		
1	70	25.2
2	73	26.3
3 – 5	92	33.1
6 – 10	26	9.4
More than 10	17	6.1
Total	278	100

The structural model assessment that was performed indicated that the model did not face any lateral collinearity issues, with VIF scores of less than 3.3 (Diamantopoulos & Siguaw, 2006). In terms of explanatory power, the analysis showed that the coefficient of determination (R^2) of government facilitation was 0.140, innovative service offerings (R^2=0.439), and international performance (R^2=0.231) thus exerted between moderate and substantial explanatory power (Cohen, 1988). The analysis also showed that the constructs recorded either a small, medium, or substantial effect size (f^2) (Cohen, 1988). Further, the test on the predictive

relevance of the model indicated that the model has predictive relevance (Q^2), whereby government facilitation recorded a Q^2 of 0.111, innovative service offerings ($Q^2 = 0.312$), and international performance ($Q^2 = 0.166$).

Subsequent to this, we performed a path coefficient analysis for all of the hypothesised relationships in the model. Essentially, the results indicated that technological capability was positively and significantly related to innovative service offerings (β=0.599, t=13.305, p<0.01), which supported hypothesis 1a (H1a). Innovative service offering was also found to be positively and significantly related to international performance (β=0.253, t=3.864, p<0.01), thereby providing support to hypothesis 1b (H1b). Relational capital showed a positive and significant relationship with government facilitation (β=0.374, t=6.002, p<0.01), thus supporting hypothesis 2a (H2a). Government facilitation was found to be positively and significantly linked to international performance (β=0.334, t=5.203, p<0.01), which supported hypothesis 2b (H2b). Government facilitation was also found to positively and significantly influence innovative service offerings (β=0.164, t=3.177, p<0.01), thereby providing support for hypothesis 3a (H3a). The results of the path coefficient assessment for the hypotheses appear as Table 6.

We also conducted a mediation effect assessment on the model and the results revealed that innovative service offerings mediated the relationship between technological capability and international performance (β=0.152, t=3.101, p<0.01), which supported hypothesis 1 (H1). Government facilitation was found to mediate the relationship between relational capital and international performance (β=0.125, t=3.696, p<0.01), thereby providing support for hypothesis 2 (H2). The link between government facilitation and international performance was also found to be mediated by innovative service offerings (β=0.042, t=2.407, p<0.05), which supported hypothesis 3 (H3). The respective outcomes of the mediation effect assessment appear as Table 7.

Table 6: Path Coefficient Assessment

Hypothesis	Relationship	Std. Beta	Std. Error	t-value	p-value	Lower CI	Results
H1a	TC – ISO	0.599	0.045	13.305**	0.000	(0.503; 0.657)	Supported
H1b	ISO – IP	0.253	0.066	3.864**	0.000	(0.133; 0.353)	Supported
H2a	RC – GF	0.374	0.062	6.002**	0.000	(0.264; 0.471)	Supported
H2b	GF – IP	0.334	0.064	5.203**	0.000	(0.228; 0.433)	Supported
H3a	GF – ISO	0.164	0.052	3.177**	0.001	(0.075; 0.242)	Supported

*Note: **p<0.01, *p<0.05, CI=Confidence Interval*

TC=technological capability; ISO=innovative service offerings; IP=international performance; RC=relational capital; GF=government facilitation

Table 7: Mediating effect assessment

Hypothesis	Relationship	Std. Beta	Std. Error	t-value	p-value	CI	Results
H1	TC -> ISO -> IP	0.152	0.049	3.101**	0.002	(0.058; 0.232)	Supported
H2	RC -> GF -> IP	0.125	0.034	3.696**	0.000	(0.068; 0.198)	Supported
H3	GF -> ISO -> IP	0.042	0.017	2.407*	0.016	(0.016; 0.080)	Supported

*Note: **p<0.01, *p<0.05, CI=Confidence Interval*

TC=technological capability; ISO=innovative service offerings; IP=international performance; RC=relational capital; GF=government facilitation

Table 8: Moderating effect assessment

Hypothesis	Relationship	Std. Beta	Std. Error	t-value	p-value	CI	Results
H4a	TC*EO -> ISO	0.087	0.031	2.773**	0.003	(0.039; 0.132)	Supported
H4b	RC*EO -> GF	0.208	0.068	3.035**	0.001	(0.084; 0.300)	Supported

*Note: **p<0.01, *p<0.05, CI=Confidence Interval*

TC=technological capability; EO=entrepreneurial orientation; ISO=innovative service offerings; RC=relational capital; GF=government facilitation

In terms of moderating effect assessment, we found that entrepreneurial orientation moderated both the relationships between technological capability and innovative service offerings (β=0.087, t=2.773, p<0.01), as well as relational capital and government facilitation (β=0.208, t=3.035, p<0.01). These results supported hypotheses 4a (H4a) and 4b (H4b) of the study. The results of the moderating effect assessment are captured in Table 8. In this regard, the Dawson's interaction plot for both of the hypotheses indicated that the relationship between technological capability and innovative service offerings as well as relational capital and government facilitation were stronger when entrepreneurial orientation was higher. For instance, as can be seen in Figure 2, the slope for high entrepreneurial orientation is steeper than low entrepreneurial orientation, indicating that the influence of technological capability on innovative service offering is stronger in conditions of high entrepreneurial orientation. In Figure 3, the slope for low entrepreneurial orientation is almost flat, indicating that relational capital has no influence on government facilitation in conditions of low entrepreneurial orientation. In conditions of high entrepreneurial orientation, the slope is positive, indicating that relational capital positively influences government facilitation when entrepreneurial orientation is high.

Figure 2: Dawson Interaction plot for technological capability, entrepreneurial orientation, and innovative service offerings

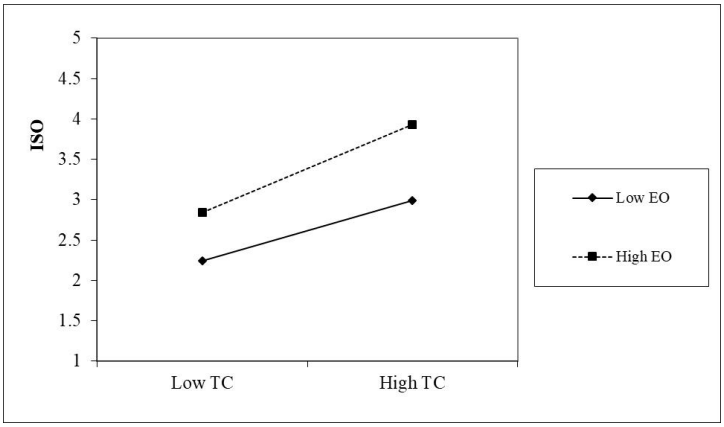
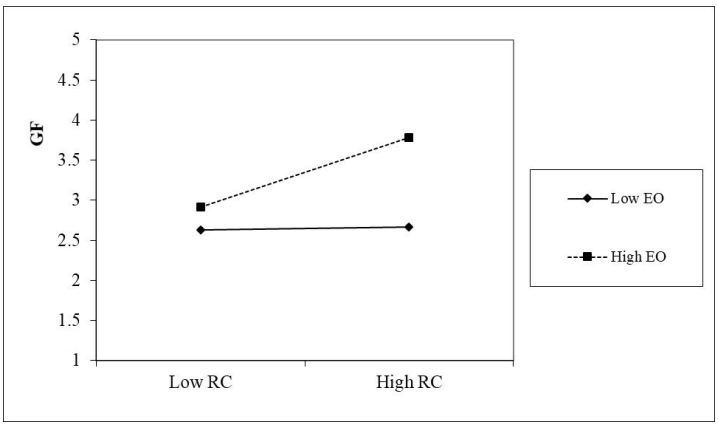


Figure 3: Dawson Interaction plot for relational capital, entrepreneurial orientation, and government facilitation



6. DISCUSSION

Our study has shown that the framework is applicable from the perspective of business service SMEs from a developing country. Essentially, the framework highlights the measures that could be employed to enhance international performance. Among others, dynamic capabilities in terms of technological capability and relational capital could be leveraged to enhance international performance. In this regard, dynamic capabilities need to be directed at creating innovative service offerings as well as leveraging the support programmes provided by government. It is also crucial for internationalising service SMEs to be entrepreneurially-orientated, as the results of our study indicated that the effect of dynamic capabilities on innovative service offerings and government facilitation were influenced by

entrepreneurial orientation. In a way, conditions of high entrepreneurial orientation may contribute to better innovative service offerings and greater access to government support programmes.

Our study provides empirical evidence concerning the importance of dynamic capabilities, in particular technological capability and relational capital, in improving international performance (Teece et al., 1997). The use of these capabilities to operationalise dynamic capability is in line with Al-Aali and Teece (2014) and Teece (2018). This operationalisation extends the dynamic capability literature considering that previous studies have thus far approached the construct at the latent variable level without indicating the actual operational variables that constitute dynamic capabilities (Teece, 2018).

In terms of technological capability, our study suggests that it may be leveraged to create innovative service offerings. Our view echoes that of Chatterjee (2017) that technological capability is useful for improving operational efficiency, influencing innovation outcomes, as well as facilitating effective implementation of internationalisation strategies. This could then contribute to international market success. Concerning relational capital, our study suggests that it tends to facilitate internationalising service SMEs in accessing external resources provided by government that may influence the outcomes of their international ventures. In this regard, the findings of our study support the findings of Zain and Ng (2006) and Leonidou et al. (2011) concerning the need for firms to build and maintain a relationship with government to enhance knowledge and understanding about target markets, build absorptive capacity, and create innovative and value added services.

Our study also extends the dynamic capability literature concerning the mediating role of innovative service offerings in the relationship between technological capability and international performance as well as government facilitation and international performance. This is in light of the scant focus of previous studies on investigating the combined effects of technological capability, relational capital, innovative service offerings, government facilitation, and international performance, which is addressed in our study. We posit that technologically competent firms tend to be more inclined to use new technologies in creating and delivering innovative services, in line with the view of Li and Deng (2017). This will enable the firms to better respond to market needs, which may contribute to sustainable international performance (Bello et al., 2016). We also suggest that the support programmes provided by government may foster innovation among internationalising SMEs, reflecting the view of Mahmood and Rufin (2005). This could then drive international performance as these SMEs are able to offer high-quality innovative services to meet the needs of customers in line with the view of Prajogo and Oke (2016).

Our study has also bridged a gap concerning the intervening effect of government facilitation on the relationships between relational capital and international performance. This is in light of previous studies which have mostly focused on the direct relationship between government facilitation and international performance (Leonidou et al., 2011). Our study suggests that relational capital tends to enhance a firm's network with government agencies, which provide various support programmes (Oparaocha, 2015). The support programmes include market intelligence, export financing, capability and capacity development, and networks with foreign governments and firms. In this regard, relational capital may lead to a greater access to support programmes provided by government, which may then facilitate the internationalisation efforts of firms (Leonidou et al., 2011).

In light of the scant research which has investigated the interaction effect of entrepreneurial orientation on technological capability – innovative service offerings and relational capital – government facilitation relationships, our study suggests that these relationships are contingent upon the entrepreneurial orientation of the SMEs. Essentially, entrepreneurial orientation which entails the inclination of SMEs towards being proactive, innovative, and risk-taking (Lumpkin & Dess, 1996) may facilitate the SMEs in sensing and seizing international opportunities. This includes the deployment of technological capability to create innovative service offerings as well as the building of relational capital with government to fully optimise the support programmes provided by government (Leonidou et al., 2011; Teece, 2018). In a sense, the relationship between technological capability and innovative service offerings tends to be stronger with a higher level of entrepreneurial orientation. Similarly, the relationship between relational capital and government facilitation also tends to be stronger with a higher level of entrepreneurial orientation.

Finally, our study also uncovered a new dimension of government facilitation, namely the 'network', to reflect the facilitating role played by government in linking SMEs with foreign governments and foreign firms from the perspective of Malaysian service SMEs. The 'network' dimension is in addition to those identified by Leonidou et al. (2011), namely information sharing, education and training, and trade mobility support.

7. THEORETICAL, MANAGERIAL AND POLICY IMPLICATIONS

From the theoretical perspective, our study has, firstly, extended the dynamic capability view literature by providing empirical evidence for a mechanism that translates dynamic capabilities into international performance through the mediating effect of innovative service offerings and government facilitation (Al-Aali & Teece, 2014; Leonidou et al., 2011). This has bridged the gaps in understanding pertaining to the factors that mediate the link between dynamic capabilities and international performance. In this regard, dynamic capabilities in terms of technological capability support the creation of innovative service offerings (Amara et al., 2016), which may lead to better international performance (Chatterjee, 2017). In the same vein, dynamic capability in terms of relational capital facilitates the creation of credibility and trust with government (Al-Aali & Teece, 2014; Zain & Ng, 2006). This in turn will enable the firm to have better access to support programmes provided by government. which will contribute to international performance (Kahiya, 2018; Leonidou et al., 2011). Our research also extends the dynamic capability view by operationalising it with the use of technological capability and relational capital (Al-Aali & Teece, 2014; Teece, 2018). In this regard, the use of technological capability and relational capital is guided by the conceptual discussions provided by Al-Aali and Teece (2014) as well as Teece (2018) about the ability of firms to sense and seize market opportunities by using technologies as well as build relationships with customers and suppliers.

Secondly, this paper enhances understanding concerning the moderating role of entrepreneurial orientation on the relationships between technological capability and innovative service offerings as well as relational capital and government facilitation. In a way, our study has bridged the chasm concerning the conditional factors that affect the technological capability – innovative service offering and relational capital – government facilitation relationships, which otherwise have rarely been investigated (Teece, 2018). Our study has provided empirical evidence that in conditions of high entrepreneurial orientation, the links between technological capability and innovative service offerings as well as relational capital and government facilitation, are stronger. In this regard, technological capability and relational capital that is combined with entrepreneurial orientation supports the creation of innovative services (Jogaratnam, 2017) and paves the way for greater access to government support programmes (Oparaocha, 2015). This may then lead to better international performance.

Thirdly, our study also contributes to the literature by uncovering a new dimension of government facilitation, namely 'network', reflecting the role of government in spearheading the network creation between service SMEs with foreign governments and foreign firms. The created networks tend to facilitate the exploration of market opportunities among firms. This new dimension reflects the items as suggested by SMEs' stakeholders during the pre-test of the questionnaire surrounding: i) access to financial assistance; ii) networks with foreign governments; iii) networks with foreign firms; and iv) platforms to discuss industry needs. The 'network' dimension of government facilitation is in addition to those identified by Leonidou et al. (2011), namely information sharing, education and training, and trade mobility support.

Fourthly, our study has lent a voice to business service SMEs from a developing country concerning the factors that drive international performance in light of the scant evidence in the literature focusing on service SMEs (Radulovich et al., 2018). Fifthly, the emphasis on service SMEs in the current study also brought interesting insight to the literature due to the usual association of SMEs with their limitations of resources (Martin et al., 2017), knowledge management (Durst & Edvardsson, 2012) and low innovative capability (Boratyńska, 2016). In this regard, business service SMEs could leverage on dynamic capabilities, innovative services, and government facilitation to ensure greater firm performance.

Our study also provides managerial lessons for internationalising business service SMEs by nudging the SMEs to focus on dynamic capabilities in nurturing and developing their employees, which may contribute to the creation of competitive advantage. In this regard, service SMEs may need to invest in various activities that are dynamic in nature, particularly technological capability and relational capital, to create innovative service offerings and enhance international performance.

To develop technological capability, SMEs need to be open to new technologies available in the market to facilitate the creation and delivery of innovative services. This is in consonance with Amara et al. (2016), who posited that technological capability increases the propensity to innovate among knowledge-intensive service firms. In this regard, service SMEs may need to invest, not only in acquiring new technology, but also in building the capability and capacity to use the newly acquired technology (Gao, Yang, Huang, Gao, & Yang, 2018). This is particularly crucial in light of the nature of technology, which changes rapidly (Jantunen et al., 2018). Hence, firms need to keep pace with the changing technology and continuously update their technological capability. In this regard, firms could make the provision for training to build the capability and capacity to use as well as manage the acquired technology a standard clause in the technology procurement contract.

To develop relational capital, internationalising SMEs are encouraged to build networks with the government agencies accountable for providing various support programmes for the industry, including in terms of internationalisation (Leonidou et al., 2011). These government agencies provide access to resources such as market information, funds, training programmes as well as networks with foreign governments and firms (Kahiya, 2018). In this regard, it is important for internationalising service SMEs to build a rapport with government agencies in order to tap the resources provided by the government. This may create a stronger footing for the SMEs in competing in the international markets. SMEs are also encouraged to register with export promotion agencies such as Matrade, which maintains a database of export ready firms (Matrade, 2019). This database will enable agencies like Matrade to disseminate key information about specific markets in a timely manner as well as share information about the support programmes provided by the government.

Since entrepreneurial orientation was found to strengthen business service SMEs' ability, these SMEs need to develop an entrepreneurial orientation among employees, particularly the top management. This can be done by creating an internal environment that is conducive and supportive of new ideas and creativity among employees, in accordance with the view of Kianto, Sáenz, and Aramburu (2017). For instance, SMEs could introduce incentive schemes to acknowledge the contribution of employees for every new idea which has been successfully implemented. Windows for network building with parties external to the SMEs should also be opened wide. This may make the employees of the firm aware of the realities, opportunities as well as threats, in their business environment. This could also make the employees of the firm more vigilant and receptive to new ideas as well as inspire them to challenge the status quo in finding new and better ways of providing innovative services.

From the policy perspective, our study provides lessons for policymakers to facilitate the stepping up of service SMEs' international performance. In this regard, the government could create a conducive business environment for business service SMEs through policy interventions and support programmes that are directed at building the dynamic capabilities of SMEs. For instance, the regulatory framework, taxation, and training and development need to be supportive of the SMEs' efforts to build dynamic capabilities. This will facilitate the SMEs in creating innovative service offerings and enhancing international performance. In addition, a more tailored programmes for service SMEs, in addition to those that are generic in nature, could also be implemented to cater to the specific needs of the service SMEs, which could be different from firms in the goods sector. This is particularly pertinent as the existing programmes in Malaysia are more skewed towards manufacturing firms.

8. LIMITATIONS AND FUTURE DIRECTION

Our study has a few limitations. First, the model of the study explained about 23% of international performance, but 77% of international performance was explained by factors that are unknown. While the predictive accuracy of the model was found to be moderate (Cohen, 1988), it is pertinent to take into account other factors to improve understanding about international performance such as collaborative economies (Fehrer et al., 2018), industry 4.0 (Čaić, Odekerken-Schröder, & Mahr, 2018), and green services (Guyader, Ottosson, Frankelius, & Witell, 2019). This will provide more empirical evidence that will contribute to greater comprehension of international performance outcomes among service SMEs. Second, caution must be exercised in applying the results of this study to other contexts as the data of this study is based on the Malaysian context. Third, 33% of the respondents of this study were managers and executives. While they have contributed to the study and provided valuable responses, they might not have complete information about the firm as compared to the top management of the firm, such as the owner and CEO. This is in line with the view of Thompson, Mmieh, and Mordi (2018) that in small firms like the SMEs, owners and top managers are deeply engaged and committed to the day to day operations of the firms as well as in ensuring performance. Hence, they are likely to have the experience of managing the firm as well as a more complete information about the firm. Fourth, future studies may also consider applying a mixed-method approach to gain understanding at a greater depth and breadth concerning the relationships between the variables.

9. CONCLUSION

Our study, which is aimed at investigating the influence of dynamic capabilities in enhancing business service SMEs' international performance, revealed that dynamic capabilities indirectly enhance international performance. In this regard, the specific dynamic capabilities, namely technological capability, relational capital, and entrepreneurial orientation, have been found to contribute to the creation of innovative service offerings as well as accessing government support

programmes that may result in enhanced international performance. On this front, our study has narrowed the gaps in the literature and contributed to greater understanding of the roles and relationships between the identified variables which were underpinned by the Dynamic Capability View. In a way, we posit that dynamic capabilities alone might not be sufficient to create international performance, which necessitates internationalising service SMEs to also invest in creating innovative service offerings and optimally utilising government support programmes.

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Appendix 1 - Constructs of study

	Author
Technological Capability	
i. Our firm is at the leading technological edge of our industry. ii. Our firm invented a lot of technologies embedded in our products/ services. iii. Our firm is often first to introduce service innovations or new operating approaches. iv. Our firm is recognised in the export markets for products/ services that are technologically superior. v. Our firm has high profile technological background personnel.	Knight & Cavusgil (2004)
vi. Our firm encourages innovative ideas and their implementation.	Zou et al. (2010)
Relational Capital	
i. Our firm has good relationships with existing customers. ii. Our firm has good relationships with our channels. iii. Our firm has good relationship with our distributors.	Radulovich et al. (2018)
iv. Our firm has good relationships with trade associations/ professional associations. v. Our firm has good relationships with government networks. vi. Our firm has good relationships with regulatory bodies and other supporting organisations.	Luo et al (2008)
Innovative service offerings	
i. Our firm offers unique benefits to customers not offered by competitors. ii. The services offered by our firm are radically different from those provided by competitors. iii. Our services are highly innovative, replacing vastly inferior alternatives. iv. Our services are of higher quality than competitors'.	Bello et al. (2016)
Government Facilitation	
Information sharing Malaysian Government agencies such as MITI, Matrade, SME Corp. and CIDB… i. …provide information about foreign market opportunities. ii. …provide information about doing business with a particular firm. iii. …provide general information about doing business in a specific country. iv. …provide marketing information and advice. v. …provide guidance on how to internationalise. vi. …publish internationalisation related publications. vii. …provide market intelligence.	Leonidou et al. (2011)
Education and training Malaysian Government agencies such as MITI, Matrade, SME Corp. and CIDB… i. …organise seminars and conferences for internationalisation. ii. …provide specialised training programmes for internationalisation. iii. …provide training on documentations for internationalisation. iv. …provide counselling advice on internationalisation. v. …provide foreign language support.	Leonidou et al. (2011)
Trade mobility Malaysian Government agencies such as MITI, Matrade, SME Corp. and CIDB… i. …facilitate the participation of firms in trade shows and exhibitions. ii. …facilitate the participation of firms in trade missions in foreign markets. iii. …provide support via trade offices abroad.	Leonidou et al. (2011)
Financial assistance Malaysian Government agencies such as MITI, Matrade, SME Corp. and CIDB… i. …provide financial assistance for internationalisation (e.g. services export fund, soft loans, market development grants)	Added post pre-test
Network	Added post pre-

Malaysian Government agencies such as MITI, Matrade, SME Corp. and CIDB… i. …provide networks with foreign governments. ii. …provide networks with foreign firms.	test
Feedback mechanism Malaysian Government agencies such as MITI, Matrade, SME Corp. and CIDB… i. …provide platform to discuss industry needs including in matters pertaining to internationalisation (e.g. Malaysia Services Development Council, National Export Council, National Professional Services Export Council) ii. …generally, provide good support programmes and assistance in facilitating the internationalisation of service firms.	Added post pre-test
Entrepreneurial orientation	
i. Our firm is among the first to implement innovative practices. ii. Our firm supports projects that are associated with risks and expectation for returns higher than average. iii. Our firm actively observes and adopts best practices in our industry. iv. Our firm actively observes new practices developed in other industries. v. Our firm actively applies new practices developed in other industries into our business. vi. Our firm recognizes early on technological changes that may have an effect on our business. vii. Our firm is able to take on unexpected opportunities. viii. Our firm continuously searches for new practices. ix. In uncertain decision-making situations, our firm prefers bold actions to make sure that opportunities are optimised. x. Our firm allocates resources to new and promising operation areas. xi. In general, our firm is entrepreneurially-oriented.	Jantunen et al. (2005)
International Performance	
Objective i. What is the percentage of your firm's export revenue to total revenue? ii. Please indicate the level of your firm's international market growth relative to your competitors.	Radulovich et al. (2018)
Subjective Please indicate the extent of your agreement with the following statements pertaining to your firm's international performance. i. Our firm has met our international market share objectives. ii. Our firm has achieved the turnover objective we set for internationalisation. iii. Internationalisation has had a positive effect on our firm's profitability. iv. Internationalisation has had a positive effect on our firm's image. v. Internationalisation has had a positive effect on the development of our firm's expertise. vi. In general, we are satisfied with our firm's success in international markets.	Nummela et al. (2004)