

## Unraveling the Enigma of Internationalization: The Case of Thai Manufacturing Small and Medium Enterprises

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### Abstract

Understanding the internationalization process of small to medium-sized enterprises (SMEs) is imperative for emerging economies to compete globally. Empirical findings of SMEs from emerging countries are still lacking. Thus, this study intends to fill this gap by providing a comprehensive model for the process of SMEs internationalization in Thailand. The pattern and dimension of internationalization, including pace, mode of foreign entry, market selection, and financing were investigated in this study as well as problems and challenges faced by SMEs and the factors influencing the internationalization process. An interpretative approach is adopted using case study method. Data from nine manufacturing firms were collected through in-depth interviews with SMEs owners and key executives. The findings indicate that traditional internationalization pattern is strongly evident in which the majority of SMEs was established on the basis of seizing domestic market opportunities before undertaking any international involvement, although some SMEs exhibited born-again global pattern as a result of occurrence of some critical events within the firm such as change of management and registration of a new company. Firms choose their main market without psychic distance reasoning. In other words, they do not choose geographically or culturally close countries as their main markets, but those with high demand and market potential. The findings showed that most of these companies opted for exporting as their preferred choice of foreign entry mode strategy as they were easier to establish, more flexible, required low resource commitments, and involved less risk. Sources of finance for international operations mainly centered on internally generated funds such as retained earnings and family contributions.

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The main drivers of internationalization centered on key personnel characteristics and firm competences. The finding clearly shows that while domestic and global forces motivate internationalization, aspects of government policy, political situation, and access to finance inhibit the process. A result of this study not only assist Thai government in making more informed decisions when designing their SME-support programs, but also provide new knowledge and important insights to SMEs managers to improve their internationalization efforts.

**Keywords:** Internationalization process, manufacturing industry, small and medium enterprises (SMEs)

## การไขปริศนาของการดำเนินธุรกิจเพื่อเข้าสู่ตลาดต่างประเทศ: กรณีศึกษาวิสาหกิจขนาดกลางและขนาดย่อมภาคการผลิตของประเทศไทย

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### บทคัดย่อ

การทำความเข้าใจกระบวนการการเข้าสู่ตลาดต่างประเทศของวิสาหกิจขนาดกลางและขนาดย่อม (SMEs) มีความจำเป็นอย่างยิ่งสำหรับการพัฒนาประเทศเศรษฐกิจเกิดใหม่ให้สามารถแข่งขันในระดับสากล ทั้งนี้ การศึกษาวิจัยในเรื่องดังกล่าวยังขาดแคลนและไม่ใช่ที่แพร่หลายนัก ดังนั้น การวิจัยนี้จึงกำเนิดขึ้นโดยมีวัตถุประสงค์ในการศึกษาและนำเสนอแบบจำลองปัจจัยที่มีผลกระทบต่อกระบวนการเข้าสู่ตลาดต่างประเทศของวิสาหกิจขนาดกลางและขนาดย่อมของประเทศไทย ตลอดจนศึกษาพฤติกรรม รูปแบบ และแนวคิดในการเข้าสู่ตลาดต่างประเทศ รวมทั้งปัญหาอุปสรรคที่ผู้ประกอบการ SMEs ต้องเผชิญในการนำพาธุรกิจสู่สากล โดยใช้วิธีการศึกษา และทำการเก็บรวบรวมข้อมูลจาก SMEs 9 แห่งโดยการสัมภาษณ์เจ้าของกิจการหรือผู้บริหารในเชิงลึก ผลการวิจัยพบว่า SMEs โดยส่วนใหญ่ยังคงดำเนินการเข้าสู่ตลาดต่างประเทศที่มีรูปแบบดั้งเดิมโดยการก่อตั้งขึ้นบนพื้นฐานของการแสวงหาโอกาสทางธุรกิจในประเทศก่อนที่จะขยายธุรกิจไปต่างประเทศ นอกจากนี้ ยังพบว่า SMEs บางรายมีพฤติกรรมการเข้าสู่ตลาดต่างประเทศอย่างปัจจุบันทันด่วนเนื่องจากเกิดเหตุการณ์สำคัญในธุรกิจ เช่น การปรับเปลี่ยนระบบการบริหารจัดการ และการจดทะเบียนบริษัทใหม่ ในด้านการเลือกตลาดต่างประเทศ SMEs ไม่ได้คำนึงถึงระยะความใกล้เคียงทางภูมิศาสตร์หรือวัฒนธรรม แต่เลือกประเทศที่มีศักยภาพและความต้องการของสินค้า สำหรับรูปแบบที่เป็นที่นิยมมากสุดในการเข้าสู่ตลาดต่างประเทศ ได้แก่ การส่งออกเนื่องจากใช้ทรัพยากรน้อยและมีความเสี่ยงต่ำ ขณะที่แหล่งเงินทุนหลักสำหรับการเข้าสู่ตลาดต่างประเทศ ได้แก่ รายได้ภายในของ SMEs เช่น กำไรสะสม และเงินสนับสนุนจากครอบครัว แรงขับเคลื่อนหลักในการเข้าสู่ตลาดต่างประเทศ ได้แก่ คุณลักษณะเฉพาะของผู้ประกอบการและความสามารถขององค์กร ผลการวิจัยยังแสดงให้เห็นว่า ในขณะที่ปัจจัยภายในและภายนอกประเทศเป็นแรงขับเคลื่อนการเข้าสู่ตลาดต่างประเทศ นโยบายภาครัฐ สถานการณ์ทางการเมืองและการเข้าถึงเงินทุนยังคงเป็นปัจจัยที่เป็นอุปสรรคต่อการเข้าสู่ตลาดต่างประเทศของ SME ผลการวิจัยนี้ นอกจากจะให้ข้อเสนอแนะทางนโยบายต่อภาครัฐในการดำเนินโครงการส่งเสริม SMEs สู่สากล ยังให้ความรู้และมุมมองใหม่ ๆ ที่เอื้อประโยชน์ต่อการเข้าสู่ตลาดต่างประเทศของผู้ประกอบการไทย

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## Introduction

A plethora of studies on SME internationalization have been conducted in developed industrialized countries (Bell, 1995; Theodosiou & Morgan, 2007). Only recently has research centered on the SMEs in developing countries or newly industrialized countries (NICs) (Etemad, 2004). Evidence from developing countries or newly industrialized countries is still limited (Coviello & Munro, 1995) and there is little evidence of study into the internationalization of industries within the manufacturing sector (Andersson, 2004). High rate of returns of SME internationalization in developed countries demonstrate the benefits developing countries can gain, so they are encouraged to follow the trend by their respective governments (Raynard & Forstaster, 2002). Havens (1998) argued that the developed countries rely on the economic benefits SME internationalization brings. For example, 98 percent of companies in Sweden (Bjerke, 2007); over 70 percent in Australia, and 97 percent of SMEs in the US are involved in international activities (Zimmerer & Scarborough, 2002). Significantly, over 98 percent of all business enterprises are SMEs which suggests they have a strong role in enhancing the countries employment and socio-economic development through firm internationalization (OECD, 2007). According to the Office of SMEs Promotion, there were 2.7 million SMEs, representing 98.5 percent of total business establishment in Thailand, contributing for 37 percent of GDP and 80.4 percent of total employment and accounting for 28.82 percent of the total export value. The above statistics show that the Thai economy does rely on SMEs and their increasing dependency on international trade.

Most governments from developing countries are taking necessary steps to promote the internationalization of SMEs which also include Thailand. However, despite the SME supporting policies and programs initiated by both the Thai public and private sector to help the SMEs to become international players, majority of Thai SMEs still face many issues and challenges which hinder their internationalization efforts. However, a question worth asking is how well do Thai public authorities understand the SMEs' internationalization process. In addition, what internationalization theory or model would best fit and explain the internationalization process of Thai SMEs.

Consequently, to address this gap, this research has tried to gain a better understanding of the internationalization behavior (pattern and pace) of SMEs in the manufacturing sector and to arrive at a better insight on what motivates and influences the internationalization process of these SMEs. The study has five objectives: (1) To determine how entrepreneurs become aware and gain access to information about international market opportunities, (2) To explore the pattern (pace) and dimension (entry mode, market selection, and financing) of SME internationalization, (3) To identify the forces that foster and hinder SME internationalization, (4) To identify the key factors affecting the internationalization process, and (5) To develop a theoretical framework which explain the initiation of Thai SME internationalization. Consequently, the outcomes of this research could deepen the understanding of SME internationalization process and assist in enhancing the capability of Thai SMEs in becoming world-class players.

## Literature Review-Internationalization Models

Welch and Luostarinen (1988) anticipate that the internationalization process crosses diverse theories. The literature has identified various views on firms' internationalization, such as: stage models; network perspective; born-global or international entrepreneurship approach; and resource-based view (RBV). These theories have all contributed to the contemporary understanding of firm internationalization. Despite the variety of understandings, internationalization theories is still inconclusive (Etemad, 2004). In addition, findings of empirical studies of SME internationalization during last decade show that none of the internationalization models can separately fully capture the actual internationalization process of the firms. As a result, this study is the first attempt to create a holistic understanding of the internationalization process of SMEs through the integration of the above-mentioned internationalization theories.

### The Stage Model

Stage models posit that firms gradually internationalize in an incremental manner through a series of evolutionary ‘stages’. These incremental perspectives include the Uppsala model and innovation-related internationalization model. The underlying assumption is that as firms learn more about a specific market, they become more committed to it by investing more resources into it. The model purports that the firm goes gradually through stages of internationalization. Figure 1 shows the usual path followed by firms during internationalization based on Uppsala model. The theory states that firms with no exporting activity will start by exporting via an agent. Gradually, firms will gain more market knowledge and use more intensive and demanding operation modes such as sales subsidiaries followed by the establishment of overseas production or manufacturing unit. The Uppsala model also suggests that firms enter new market successively and start by going into countries with less psychic distance, in terms of language, business practices, and cultural differences before expanding into countries with greater psychic distance.



**Figure 1.** The Uppsala Model

In as slight variation, the innovation-related model, each subsequent stage of internationalization, particularly export development process is considered as an innovation for the firm (Bilkey & Tesar, 1977; Cavusgil, 1980; Czintoka, 1982; Reid, 1981). The nature and number of stages may vary according to the authors whose work is associated with this approach. However, these models, by retaining the two major principles (gradual involvement of firms and market selection through psychic distance reasoning) remain very close to the Uppsala school.

### **The Network Approach**

SMEs cannot be analyzed as an independent actor in foreign business. They are part of many network, therefore connections with actors should be explained. Moreover, the Uppsala model does not explain how SMEs utilize their connections through their internationalization process. As a result, the network approach was put forward by Johanson and Mattson (1988) that highlights the importance of relationships with suppliers, customers, distributors, regulatory and public agencies that can stimulate or help a firm to go abroad. According to Johanson and Mattson, being connected with others actors allow SMEs to gain knowledge on foreign markets and access to required resources and capabilities. The establishment of financial, technological and commercial relations with other actors of the network help the firms to extend their connections and to gradually expand their activities apart from their own territory until they become international. These relations involve the firms in deliberated but not planned international relations.

### **The Born Global Approach**

Nowadays, more technological advancements and declining trade barriers are driving the world economy to become integrated and rapid globalization is enabling SMEs to internationalize in a quicker yet effective manner. Oviatt and McDougall introduced the concept international new ventures (INVs) or born global firms to explain this new trend of rapid internationalization. Despite constraints arising from limited resources, such firms internationalize at a rapid pace either immediately or within three years after inception due to its unique assets and capabilities and enter more than one foreign market, irrespective of psychic distance involved. Born global entrepreneurs perceive foreign markets not as a mere extension or expansion of the domestic ones, as do large multinational firms, but as the prime focus of the firm's core business.

In parallel to this progress in the field of international entrepreneurship, a new generation of internationalized firms has emerged: Born again global firms (Bell et al., 2001). They are well established firms that had focused on the domestic market for a

period of time, but then suddenly embraced rapid and dedicated internationalization as a result of some critical events within the firm such as change in management. They seem to combine elements of both traditional theories of internationalization, essentially their initial development phase on the domestic market alone, with other elements from the born global model, in particular their rapid internationalization.

### **Resource-Based View**

Finally, the resource-based view (RBV) initiated by Penrose (1959) has received extensive interest in the SMEs internationalization literature. This theory argued that a firm's potential success within the international market is not only reliant upon the environmental indicators, but on the resources and capabilities within the firm that are a source of competitive advantage. However, mere possession of firm-specific resources does not guarantee competitive advantage. The RBV pays significant attention to intangible resources as a fundamental means of providing the firm with sustained competitive advantage as they are unique, rare, valuable, and inimitable (Barney, 1991). The RBV therefore claimed that organizational internal factors are responsible for generating competitive advantage and superior performance through internationalization.

### **Inconsistencies in the Internationalization Approaches**

The above discussions confirm that there are inconsistencies in the prediction of the mainstream models of internationalization. Table 1 shows these inconsistencies between the predictions of the mainstream models. Despite their complementarities, the four models have different underlying assumptions about the key determinants of internationalization. The gradual-behavior-based (Stages), rapid and network approaches are based on the interplay of market knowledge and commitment on the one hand, and relationship development on the other hand as means of overcoming limited knowledge and exploiting opportunities.

Internationalization is, moreover, viewed in the gradual-behavior (Stages) and rapid model as a rational and purposeful planning process in which firms seek to optimize outcomes and minimize risks given limited knowledge. This contrasts with the



network perspective that views markets as networks, and where internationalization is viewed as a more emergent and unplanned process stemming from the interactions taking place among networks of interconnected firms and other organizations involved in an industry and market. Resource-based view linked these perspectives because it allows the possible linkages between the learning aspect of gradual, rapid and network approaches.

**Table 1.** Inconsistencies in the Internationalization models

Assumptions	Stage approach	Network approach	Born Global approach	Resource-based view approach
Market knowledge	X		X	X
Market commitment	X	X	X	
Rational planning process (strategic decisions)	X		X	
Emergent and unplanned		X		X
Risk minimization	X			
Relationship formation & development		X		
Resource heterogeneity			X	X
Resource immobility (creation of competitive advantage)		X	X	X

#### Applicability of Internationalization Models in the Context of Thai SMEs

The gradual-behavior (stage) approach posits that firms internationalize in a systematically planned manner which requires the firms to be extremely rational and well-informed; however, it may not be able to explain the behaviors of Thai SMEs. First, Thai SMEs suffer from constraints (such as limited access to information channels, lack of access to credit, and lack of coherent institutional support) that can cause them to make irrational decisions. Even if such barriers are not present, their decision makers, like

most managers in any other countries, rarely make decisions under rigorous rationality. One must also keep in mind that managers' perceptions, values, and affinities strongly influence their decision-making processes. In addition, they face strong constraints in terms of resources and information access and cannot afford thorough and efficient market information collection and analysis. In many cases, doing business abroad is like taking cautious steps into unknown territory rather than a consequence of rational choice based on economic analyses because the difference between conducting business in the home country and abroad can be analyzed largely in terms of the level of knowledge within the firm itself, and managers' work may be much more fragmentary and less rational than what the traditional economic theories assume. Moreover, the decision makers may lead their firms to internationalize just to satisfy their private desires regardless of whether or not such action actually brings benefits to the firms. Those private motives may be related to monetary benefits or merely psychological satisfaction, reflecting the desire, drive and enthusiasm of the management for international activities to increase the private benefits associated with the foreign presence of their companies. Thus, we should not expect Thai SMEs to be able to thoroughly search markets and follow a systematic planning process.

Research in the stage approach only focuses on the early stages of internationalization and theorizes that firms follow sequential stages in their international expansion. Its consideration of incremental commitments as risk avoidance behaviors implies that companies develop first in domestic market due to the lack of knowledge about foreign before venturing abroad. But in reality, many firms do not follow incremental patterns, but go directly into international markets right from their inception or a few years after establishment. Since research studies in this school only explain a part of the internationalization process, i.e., the early stages of international expansion, and the explanation has significant shortcomings, we cannot expect it to adequately explain how Thai SMEs internationalize.

Unlike the stage approach, which exhibit some form of strategic decision-making in the firm's internationalization process, the network approach looks into non-hierarchical systems of the firms' international network (Johanson & Mattson 1988). Drawn on the theories of social exchange and resource dependency with a focus on firm behavior in the context of a network of inter-organizational and interpersonal relationships, the network approach anticipates that the act of internationalization depends on the firm's interactions with other actors in the business network relationship rather than through its sole interaction with the market. This approach seems promising for the study of Thai SME internationalization because SMEs supporting agencies are developing quickly and opening Thai SMEs to new market opportunities as well as partnerships. However, firms may be pushed to internationalize by the influence of contextual factors, i.e. marketing strategies, business environment, industry structure, other than established relationships. Thus, the network approach fails to explain any contextual factors that may come into play in the internationalization process of Thai SMEs. On the other hand, resource-based view emphasized that both tangible and intangible resources play a vital role to the firm's international diversification strategy as they create organizational capabilities, core competencies, and/or sustained competitive advantages for the firm. However, the resourced-based view does not adequately explain how a firm develop business relationship as it only focuses on firm-specific advantage.

In summary, it is unlikely that one particular theory can fully explain the nature of Thai SMEs internationalization. Since Thai SMEs play a vital role in Thailand, which is increasingly integrating into the international economy, this research aims at giving voice on this unexplored problem and advancing a theory in this area. Unlike the existing theories which account for the potential influence of either internal or external factors, the theoretical framework developed from this study incorporates both internal and external factors by taking into account the concurrent influence of managerial characteristics, firm characteristics, industry structure and attributes, and socio-economic infrastructure and the interrelationship among these factors rather than isolating each factor.

## Research Methodology

To meet the research objectives, the researcher relied on an exploratory study as the internationalization process and the factors influencing it have never been analyzed deeply in Thailand. As the study planned to gain insight into three research questions: “How”, “When” and “Why” Thai SMEs start their international business activities, the researcher chose the multiple-case study method for the research as adapted from Yin and Eisenhardt respectively.

The study typically combined data collection methods which include in-depth interviews, observation, and documentation such as company profiles, press reports, and product descriptions. The population of interest in this study is Thai manufacturing SMEs that either are currently engaged in international business activities or are planning to go international. The unit of analysis is the organization (SME) and the target respondents were business owners and top managers. To limit respondent’s memory recall problems, the sampling was restricted to firms whose key executives are instrumental in the firm’s internationalization since the very beginning.

The sampling frame consisted of SMEs across a range of industries from the database of the Office of SMEs Promotion as it provides convenience and accessibility. Nine case firms, drawn from a variety of industries including food and beverage, furniture, chemical products, garment and textile, machinery and equipment, leather products, metal products, and gems/jewelry (chosen in terms of the ranking of total manufacturing value) were selected based on purposive sampling approach. Key respondents were interview face-to-face using semi-structured open-end question format. Each interview covered: (1) awareness and source of information for international market opportunities; (2) internationalization behavior which include pattern (traditional, born global, and born-again global) and dimensions (pace, entry mode, and market selection); (3) domestic and global forces which foster and hinder internationalization; (4) influential factors such as firm-specific factors (firm resources, competencies, and characteristics), key personnel factors (managerial vision, international exposure, and entrepreneurial orientation), and environmental factors (market size and potential, socio-economic conditions of both home and host countries, and government support program).

Interviews were transcribed, and along with documentary and observational evidence, and coded to reconstruct the biographic history of each firm and to draw cross-case comparison using the method of pattern matching or thematic analysis. For the purpose of confidentiality as agreed between the researcher and the case firms, fictitious names were given to each company to protect their identities from their competitors.

## Results and Analysis

### Internationalization Awareness

The changing global market conditions especially the regional economic integration which bring about freer trade and investment have triggered awareness of international market opportunities for SMEs. For instance, majority of firms viewed that the upcoming ASEAN Economic Community (AEC) in which ASEAN will become a single market and production base near end of year 2015 will not only offer them new opportunities to find cheaper raw materials and expand their customer base due to the reduction in trade barriers and tariff, but also opportunity to relocate their production base. The other important triggering factor is 'following global trend'. For example, one beverage and food chemical processing firm is able to grasp international market opportunities through the growing demand by health-conscious consumers around the world for safe and healthy products by introducing organic mangosteen juice and producing citric acid from tapioca, which is a GM (genetically modified)-free crop respectively. Awareness of international opportunities is also influenced by the idiosyncratic demand from a particular market sector. In particular, consumers in developed countries tend to prefer products with more sophisticated design, are made of better materials, or are less likely to malfunction. As a result, domestic producers in developing countries who attempt to enter foreign markets become aware of these opportunities by adapting their product styles and designs to meet specific needs and requirements of these markets.

### **Source of Information**

Almost all firms tend to base their foreign endeavor on networking, for gathering market knowledge and information. When searching for international opportunities, it is the firm's owner and management who initiate links with others, which support Johanson and Mattson's network approach that "being connected with other actors allow SMEs to gain knowledge on foreign market" (Johanson & Mattson, 1988). Participation in government, industry and export-related associations was found to be the most useful way for SMEs to initiate the development of their international network relationships. In their early stages of internationalization, exhibition (rather than mere attendance) at major national and international trade fairs was the most effective way for SMEs to develop their international network relationships.

### **Pattern of Internationalization**

Each firm's internationalization pattern was compared with that of traditional, born global or born-again global firms. It was strongly evident that the majority of firms in this study followed a traditional internationalization pattern. They focused initially on the domestic market before undertaking any international involvement. Additionally, their first steps were unplanned, opportunistic, and reactive to external events and the pace of their international growth was gradual, usually taking more than three years to internationalize. Other case firms (food & beverage and leather industries) exhibited characteristics of born global firm in that they were established with an aggressive global vision or commenced selling to foreign markets within one year of establishment. The remaining firms, on the other hand, exhibited characteristics similar to that of born-again global firms, where a critical event in history of each firm led to a sudden change in focus from domestic to a global orientation rapidly and dedicated internationalization as a result of critical events within the firm such as change in management (food & beverage) and registration of a new company (garment & textile).

### **Foreign Entry Mode**

The foreign entry method of all the case firms was similar to that of traditional firms in that they either internationalize by direct or indirect exports (through agents/distributors). This seem to support the notion that firms have initial preference for low commitment mode due to the lack of appropriate experience and knowledge about international markets which fits perfectly with the Uppsala model in which exporting is the first step to gain internationalization before progressing to other forms of foreign market entry.

### **Market Selection**

When it comes to the choice of foreign target markets, Thai SMEs do not follow psychic distance reasoning of the stage theory which asserts that companies tend to expand to geographically and culturally close countries before proceeding to distant markets. In fact, the companies choose distant countries as their main markets. The reasons are that customers from geographically/culturally close countries do not have sufficient purchasing power so the market potential is not promising. Furthermore, the choice of market is also determined by demand and price factors. They are willing to enter any markets with sizeable perceived demand for their products and a good market price. It seems that markets were typically not selected as a result of thorough market analyses. Rather, they tend to use intuition and rely mainly on experience. They asserted that formal methods are only theoretically useful, but not practical.

### **Financing Methods for Internationalization**

Internally generated funds which include retained earnings and family contribution were the most popular sources of finance for international growth strategies. The performance of the SMEs in the domestic market, largely determines the amount of funds available for international growth. SME managers/owners tend to reinvest the retained profits in the business instead of using debt-finance. Moreover, family contributions also generate substantial portion of internal funds for these second-and third-generation SME managers to finance their international operations. This suggests that SMEs exhibited characteristics similar to that of traditional

firms by adhering to a pecking order when raising additional finance, favoring internally generated funds over long-term bank loans and overdraft.

### **Motivating Factors**

The most common motivations for the firms to internationalize their operations were that it presented a growth opportunity that was not available to them in the domestic market, and enhancement of their competitiveness and risk diversification. Internationalization was also perceived to be one way to maximize profits and raise the awareness of the firm's products/brands. The firms that develop a global orientation and dedication to international growth were motivated by the desire to exploit opportunities and raise liquidity levels. In summary, the motivations for internationalization of the majority of the case firms were similar to that of traditional firms, where the triggers for internationalization were reaction to falling prices of agricultural products, and thus declining purchasing power of domestic consumers, small domestic market, excess production capacity, following the client, and greater potential demand in international markets. Two firms exhibited characteristics similar to those of born global firms, with proactive and structured approach to internationalization, particularly grasping a more attractive international business opportunity from regional economic integration.

### **Barriers to Internationalization**

Several barriers that hamper internationalization have been identified in this research. As literature on internationalization suggest, lack of international competent personnel is one of significant barriers. This issue is critical because it takes a great deal of time and efforts to overcome this problem with proper training and practical experience. We also find that financial barriers are critical to the success of companies especially in the beginning stage of internationalization. The companies may face liquidity problems when it came to investing in machinery and buying raw materials. A large number of Thai firms do not have access to the financial resources required to increase or modernize their production capacity. In addition, lacks of government incentives/assistance toward internationalization such as low-interest loans, grants,



or tax breaks may be important sources of barriers in Thailand and many other developing countries.

Thai SMEs have also faced other barriers not mentioned in the literature due to their business environment and individual circumstances. This study also revealed that political instability in the past had exerted severe impacts on SMEs, i.e., they had difficulties to contact new customers and export their products as end customers and distributors did not want to attend trade fairs or they might choose to go elsewhere. Frequently, shipping workers could slow down or stop working altogether in main harbors and airports. Other barriers include government's 300 baht minimum wage policy and the big players' monopoly power of raw materials have increased the production cost and thus reduced the ability of SMEs to offer competitive price in the world markets. Shortage of raw materials also hampered the firm's international activities as exemplified by gems and jewelry case firm.

### **Key Factors Influencing Internationalization**

Findings revealed that the firm-specific factors, characteristics of SMEs owner/manager, and their perception toward government support programs are important drivers for internationalization. With regards to firm-specific factors, the most substantial items are availability of financial, technological, and organizational resources. The implementation of international strategy requires access to the necessary financial resources, i.e., funding promotional activities such as exhibitions and participation at international trade fairs, and to bring about the changes required within the firm such as upgrading production and service capabilities. Information technology as a resource was also found to be important for the internationalization for the case firms. The development of a comprehensive company website was important for developing brand awareness and attracting direct sales opportunities in overseas markets. It was also an effective way to provide timely customer service to the firms' international customers. Additionally, information technology was also an important tool for gathering information on issues such as potential customers, competitors, and, product and pricing decisions for particular overseas markets. Furthermore, analysis of the case firms revealed that SME's availability of organizational resources had a substantial influence

over the development of the organizational capabilities required for internationalization. It was critical that the management team are independent both in conceptualizing and in implementing an internationalization strategy in order to foster SME innovation.

Overall, these factors provide sustainable advantages to the firms. However, it was equally important that the firms also need to reconfigure their production infrastructure in order to have sufficient production capacity to meet both domestic and international demand, to reliably produce high quality products at internationally competitive cost, and to either develop an innovative product lines/designs or to adapt the existing lines, to meet the requirements of international markets.

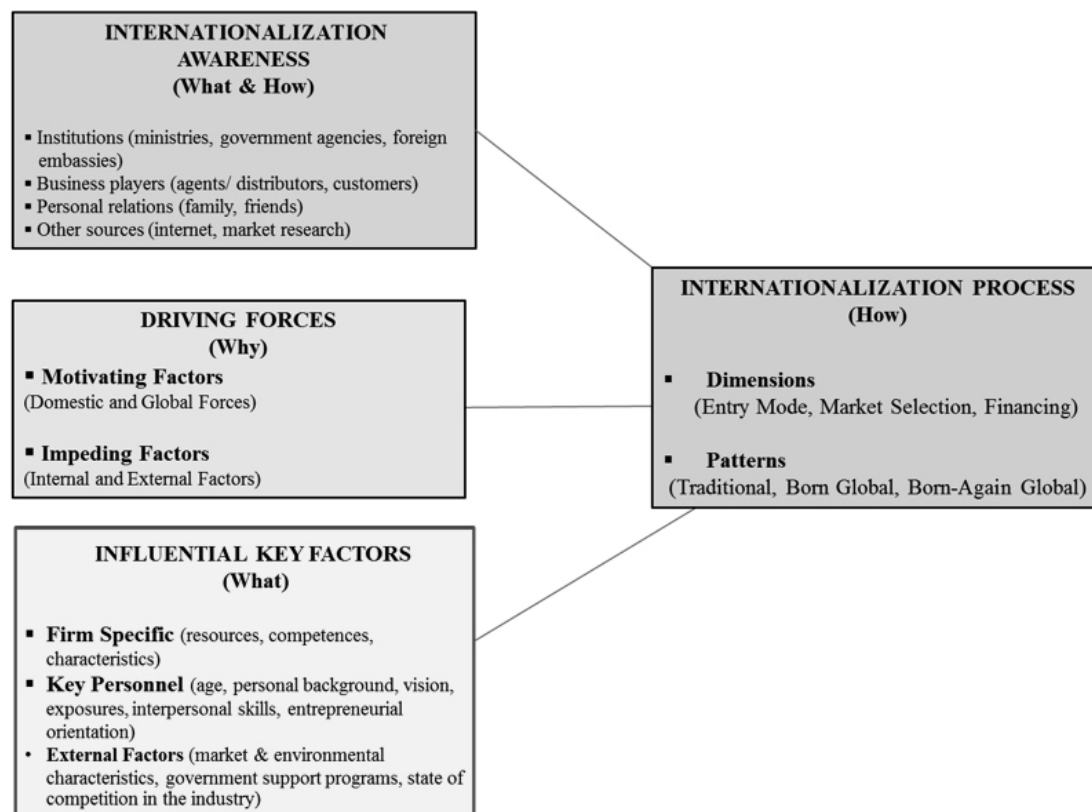
Apart from firm-specific factors of resources and production capabilities, the study also found that key personnel of SMEs had a substantial influence in promoting internationalization. Their competencies, such as broad experience, broad international exposure, distinctive entrepreneurial orientation, good interpersonal skills, competent management capabilities, exceptional personality and attitudes, and strong global and visionary mindsets, were prerequisites in developing the organizational capabilities for internationalization. These characteristics of key personnel are consistent with previous research on firm internationalization. These characteristics are supplemented by having “righteous” personality and attitude in business dealings, which include honesty and high integrity in their business transactions. Taken together, these characteristics enable the SME owners/managers to gain trust and respect, not only from their own employees, but also from business partners and local and foreign associates.

Many of the SMEs owners/managers recognize and are interested in the available government support services. However, few SMEs actually access and make full use of these services whose perception of government support services can be categorized as knowledge, access to financial support, and access to foreign markets. For knowledge, entrepreneur perceived that what they have received so far is too general and often at macro level. They need more in-depth and update of market and consumer information as well as the channels to access such knowledge. Also, the market opportunity analysis from reliable sources or consultants and information should emphasize on the “how-to” of international expansion more than the general

information. Moreover knowledge provided is not tailored to the different needs of SMEs. For access to financial support, entrepreneurs viewed that government officers overlook the prospect entrepreneurs and supports only those firms that have a strong network which is consistent with Cavusgil' study (1980). For access to foreign markets, entrepreneurs perceived that their success came from their own abilities and perseverance to maintain sustainable connection following government initial support which is consistent with Rojtheeravanich's findings. However, they viewed that government should continue to support them in various ways such as series of road shows and trade mission supports to help identify new market opportunities and facilitate negotiation with foreign governments in terms of taxes and regulations.

## **A Model for Initiation of SME Internationalization in the Thai Context**

In line with the debate that one theory cannot explain the internationalization process of SMEs, this study has integrated various theories of internationalization which include stage, network, international entrepreneurship, and resource-based view. Because this integrated approach has not been previously researched, this study adopts a qualitative approach to explore the how and why of SME internationalization in the Thai context. Based on the previous literature review and research findings, model of initiation of internationalization of Thai SMEs is presented in Figure 2.



**Figure 2.** Proposal of Model for initiation of SMEs internationalization in the context of Thailand

The model explains that the initiation of firm's internationalization is influenced by three sets of factors which include awareness, driving forces, influential key factors toward internationalization. These factors are interlinked, indicating that interrelated micro and macro conditions affect the SMEs decisions to internationalize. Internal and local, and external and global conditions influence the process of internationalizing the SMEs; the earlier conditions explain the pushing factors, while the latter conditions clarify the pushing factors which both are considerable important elements that trigger the SMEs to internationalize and determine their modes of foreign entry, scope of markets, and patterns of internationalization.

## Implications for Theory and Practice

This study has provided some very interesting insights into the internationalization process of SMEs in Thailand. From the theoretical aspects, it has been demonstrated that the combination of different theoretical perspectives (gradual-behavior or stage model, network approach, international entrepreneurship perspective, and Resource-based view) can be used effectively to examine and understand the internationalization process of SMEs which conform to Jones and Coviello that integration of theories is needed to accurately describe the internationalization of SMEs. All of the mentioned internationalization theories seem to be relevant in the context of Thai SMEs internationalization. Even though the Uppsala model has been criticized as not applicable in today's market environment it is still valid as not all Thai SMEs that involved in international business are INVs or born global in nature. They tend to base their foreign endeavor on networking with other actors in the business network relationship, particularly with government agencies and industry associations. Through the networking, SMEs enhance their knowledge on foreign markets, which in turn supports the gradual view of learning process proposed in the Uppsala model. However, the networking must be developed by the SME owners/ key managers indicating that a firm's choice for going international is related to their networking ability which is regarded as one of the important internal capability that enable SMEs to internationalize under the resource-based view. This study has found support for both the Uppsala model and the network approach as majority of SMEs in Thailand still follow the same pattern suggested by both theories during internationalization. The fact that SMEs in Thailand are going for rapid internationalization shows that some SMEs are well equipped in terms of knowledge, financial and other resources needed to become an international player from the start. In addition, the occurrence of triggering events within the firm such as a change in management can also lead to rapid internationalization which supports the born-again global internationalization pattern proposed by Bell, et al. (2004).

Additionally, this study also has implications for policy and practices by highlighting a number of key issues affecting Thai SME's future international expansion in the global market. The fact that a large number of SMEs have not involved in international trade shows indicates that opportunities are still available for the government to encourage internationalization. A more comprehensive approach is needed to help these SMEs improve their competitive advantage by providing equitable access to financial facilities, make available a more in-depth and accurate information of the foreign market potentials which can really support the internationalization of their business and establishment of a central body to deliver timely supports and facilities to SMEs can also be helpful. On the other hand, owners/managers of SMEs need to be fully inform and able to utilize the government programs to increase awareness of international opportunities as well as to gain advantage from their incentives/program provided for internationalization. The escalating costs of conducting business recently requires SMEs to strengthen their management skills, financial capabilities and learning capacities, and to configure their infrastructure (physical, human and organizational) to enhance their operation and service capabilities required for internationalization. These include having a sufficient production capacity to meet both domestic and international demand, continuous investment on R&D in ameliorating product quality and work processes, and the ability to develop innovative product lines and designs which conform to international requirements. Since innovation has consistently been shown to be a key driver of internationalization, it is critical that SMEs develop an innovative and entrepreneurial culture that supports an ongoing commitment to innovation. One possibility is to retrain the owners/managers to bring on the revival of the entrepreneurial spirit required for internationalization. Not only is it important to acquire the necessary expertise, it is also important to give managers the independency to proactively respond to opportunities in their areas of responsibility.

In order for SMEs to grow internationally, it is critical that they develop their international business networks, which have been identified as one of the key drivers of SMEs internationalization. Developing a comprehensive website, and participating in international exhibitions/ trade fairs is one of the key ways an SME can develop its international networks and build brand awareness. Since this can play an influential

role, it is critically important that competent managers of the SMEs are willing and able to travel internationally to build such international business relationships. However, as they grow internationally, SMEs need to engage in strategic planning to recognize the resources and capabilities that would need to be acquired and developed in order to build a successful internationalized business. As mentioned previously, a strong and well-articulated government policy as well as an establishment of a central body to provide concrete and effective development programs should receive a high priority.

### **Suggestions for Future Research**

In sum, gaps remain in the literature and as well as the empirical evidence on the internationalization of SMEs. In terms of future research, it will be necessary to refine and deepen the broad ideas as presented in the proposed models of internationalization. Additional research should be conducted in different emerging markets to distinguish whether they varies and later prove or disprove the relationships among interrelated factors through statistical analysis. In terms of methodology, empirical research in this area should be applied to different regions and industries as well as different unit of analysis such as the panel experts (academics, policymakers, supporting government agencies and research institutes) for a more comprehensive picture of SME internationalization.

### **Conclusions and Implications for Public Policy Administration**

Even though the firm's internationalization phenomenon interests the attention of many scholars but they allocate a little effort to understand the influential factors affecting the internationalization process of SMEs. This study provided an integrated framework through the application of four major internationalization theories namely stage model, network approach, international entrepreneurship, and resource-based view as a platform to explore the factors affecting the internationalization process of SMEs in Thailand. This study also validate the findings related to internationalization which are examined in other context/settings like western countries.

The outcome is an integrated model for the initiation of SMEs internationalization in the context of Thailand. The model explains the initiation of firm's internationalization as influenced by set of factors which include source of information, internal and external forces that motivate and hinder internationalization, and the influential key drivers including firm-specific factors and key personnel characteristics.

This study also validate the findings related to internationalization which are examined in other context/settings like western countries. The finding from this study challenge existing explanations by bringing a perspective that has been ignored to the fore. Firstly, that internationalization of firms in developing countries is approached differently from that of firms from developed countries and therefore explanations of the phenomenon is different. Small firms from developing countries have far more challenges that they face as they internationalize than firms from developed countries. Unfortunately, current theories seem to overlook this factor and tend to generalize internationalization based on findings from developed countries. Secondly, although the findings reveal the already acknowledged patterns of internationalization, these seem not to be determining factors of the scope, and extent of a firm's internationalization process. Such fundamental factors as motivations, entrepreneurial culture, and government's role are more influential than it has been previously acknowledged. Consequently these three factors serve as a foundation for a small firm's internationalization process.

Due to the rapid changes in international business environment, Thai SMEs and policymakers should gear their efforts towards changes in order to overcome the challenges and increase their competitiveness in the global market. SMEs need to be more proactive and capitalize on the government programs in order to be effectively internationalized and be more competitive. The escalating costs of conducting business recently requires SMEs to strengthen their management skills, financial capabilities and learning capacities, and to configure their infrastructure (physical, human and organizational) to develop the production capabilities required for internationalization. These include having a sufficient production capacity to meet both domestic and international demand, continuous investment on R&D in ameliorating product



quality and work processes, and the ability to develop innovative product lines and designs which conform to international requirements. Since innovation has consistently been shown to be key driver of internationalization, it is critical that SMEs develop the entrepreneurial culture that supports an ongoing commitment to innovation. Although they may have technical skills, most founders will not have the business skills required to grow the business internationally. In addition to formal training (in business management/marketing) of existing owners, the appointment of managers with the necessary expertise and experience can be one of the most effective ways to acquire the skills for international growth. One possibility is to retrain the managers to bring the revival of the entrepreneurial spirit required for internationalization. Not only is it important to acquire the necessary expertise, it is also important to give managers the independency to proactively respond to opportunities in their areas of responsibility.

In order for SMEs to grow internationally, it is critical that they develop their marketing capabilities and international business networks. As the earlier mentioned resource-based view stress the importance of firm-specific asset or unique product that leads to competitive capabilities which can be exploited abroad. Therefore, the specific strongholds of SMEs should be the production of differentiated, customized products, paired with prompt delivery and after-sales service rather than homogeneous, mass produced products. Failure to do so put SMEs at risk of remaining largely unknown in the international stage. In addition to customizing their products and providing superior customer service, it is of critical importance that SMEs develop their international business networks, which have been identified as one of the key drivers of SMEs internationalization. Developing a comprehensive website, and participating in international exhibitions/ trade fairs is one of the key ways an SME can develop its international networks and extend its market reach. Since this can play an influential role, it is critically important that competent managers of the SMEs are willing and able to travel internationally to build such international business relationships.

In addition, this study have implications for public policy administration. As internationalization is recognized as a valuable strategy for SMEs' growth and development, and a major economic contributor in Thailand, government and support organizations

need to play an active role in helping internationalize the SME sector. In doing so, findings from this study suggests that they may wish to review the provision of assistance they provide for SMEs about to or already engaged in internationalization as follows:

1) Segmentation or needs-based approach to targeting internationalization support-Overall the message emerging from the study is that SMEs appear to go through a learning process when they engage in international activities. Furthermore, needs are not uniform and constant to all SMEs. To address them, governments and agencies need first to ascertain what kind of SME they are dealing with, what stage of international operations it is at, whether it has perceived any barriers and if so what kinds of barriers they regard as important. For example, those firms new to international activity value information about markets and opportunities which provide a foothold for them in their international venture. In other words, they require ‘how-to’ guides (i.e. how to plan market visits and trade-fair strategies or how to identify potential international partners) from public authorities to provide assistance and knowledge in addressing initial problems and challenges. On the other hand, more experienced international SMEs need a different kind of intervention as their problems tend to be more specific to the business and the competitive environment. For instance, they can be assisted effectively through the delivery of specific services (i.e. introduction to potential clients/ or grants). In other words, the government need to ‘segment’ supports they offer on the basis of the level of knowledge and experience of the specific SME seeking support for internationalization.

2) Raising awareness of support programs for SMEs internationalization- One of the main reasons for non-utilization of support is that SMEs lack awareness. In general SMEs do not have the desirable knowledge about the support measures due to the lack of resources devoted to internationalization. Governments and supporting organizations should do more to publicize the wide range of support programs available to SMEs seeking to access international markets as, on the whole, those programs are regarded as useful by firms that use them.

3) Overcoming the reluctance of banks to lend to SMEs- Evidence from this research shows that financial supports are often given to internationalized SMEs companies which have successful track record due to their well-established networks

and brands while those non or minimally internationalized companies are deprived of access to finance. A major reason for those SMEs being overlooked by banks is that they are perceived as high-risk customers generating relatively low profitability due to substantial transaction costs. Furthermore, SMEs skills are limited in preparing the financial information and business plans that banks need to make lending decisions. In addition, the management skills required to run an expanding business successfully need to be improved; thus, capacity building efforts need to be extended to SMEs.

Partnerships between banks and business development services providers have the potential for reducing these problems. Business development service providers can play a pivotal role in improving SMEs credit worthiness as they have a comparative advantage in pre-screening potential SME clients, helping in providing clear business plans and in improving financial information generated by the SMEs as well as providing risk assessment and monitoring services for the banks. Outsourcing these activities to BDS providers reduces the transaction costs and information asymmetry of lending to SMEs and has the potential to improve SMEs access to finance without causing market distortions.

4) Integration and coordination among stakeholders - A fluid, integrative and consultative process between all the stakeholders (government, support agencies, business representatives and banks) is possibly the best key for developing effective support for SME internationalization. Apart from the fact that all key stakeholders must be involved in the development of policies and programs to facilitate implementation and create synergies, it is imperative that there should also be increased and regular co-ordination between these bodies to guarantee best use of available resources and avoid overlapping of programs.

5) Fostering entrepreneurship - Apart from the personal and professional experiences of the owner/manager, the main driver that move companies to internationalization is the entrepreneurial orientation of the decision makers. Government policies should consider the relevance of this driver in order to boost the pool of future international entrepreneurs by fostering the acquisition of entrepreneurial attitudes, promoting greater awareness and exposure to foreign cultures, and supporting

early language acquisition. Government should reform its education system to allow market-driven curricula in higher education and vocational training institutions. To foster entrepreneurial and international mindset among students who will become the workforce of tomorrow, universities should formalize entrepreneurship as an important part of the curriculum and ensure students are exposed to all of the entrepreneurial growth phases, not just start-up phase. There should be more international content within the curriculum as well as faculty with international experience themselves. On the later point, more must be done to facilitate faculty collaboration, exchanges and research across borders. Apprenticeship has always played an important role in training and development. Creating internships for young people to work in foreign countries could be useful as well as targeted training programs for groups of entrepreneurs, focused on development of management capabilities. Encouraging entrepreneurs to learn foreign language is also critical. Without the ability to communicate, there is little chance that any business can be conducted across borders.

In summary, effective support to SMEs must consider the variables that influence the process of internationalization: level of knowledge and experience of entrepreneurs, available financial and human resources, awareness of support programs, and integration among stakeholders for delivering effective support programs. The constantly changing and challenging global business environment make SMEs fragile and vulnerable to external shocks due to their size and their limited financial, managerial and information resources. Thus, SMEs are not by themselves sufficient for pursuing any international strategy without the appropriate development of institutions and support structures. They should be supported, guided and nurtured by their governments for a certain time until they are able to develop their own capabilities and strengthen their competitiveness, allowing them to face and compete with foreign firms primarily from developed countries. It remains the open-end questions for the government to effectively and synergistically promote international development of SMEs amidst the changing global economic scenario.

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