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Department of Management

# Internationalisation Process Behaviour of Thai SMEs: A Contextual Exploration into the Major Determinants

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Submitted in fulfillment of the requirements for the degree of the Doctor of Philosophy (PhD)

Glasgow, 2012

# Declaration of Authenticity and Author's Rights

This thesis is the result of the author's original research. It has been composed by the author and has not been previously submitted for examination which has led to the award of a degree.



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# Acknowledgements

To complete this thesis, there have been a number of unforgettable individuals who have accompanied me during this long journey. Without their support and feedback, it would not have been possible to accomplish this challenging goal.

Above all, I would like to thank my primary supervisor, Dr. Tim Andrews, for his invaluable guidance and encouragement through this journey. He has been a great supervisor. His insightful advice and suggested direction have led my research to a more critical and accurate approach. I would also like to thank my former second supervisor, Professor Sara McGaughey, and my present second supervisor, Professor Sharon Bolton, in particular for their advice.

I also want to express my special appreciation to my colleagues in the Department of Management, Strathclyde Business School for the enjoyable time I spent there. I especially appreciated their support and the atmosphere we worked in. My thanks to Dr. Paul Hibbert, Dr. Barbara Simpson, Dr. Frank Siedlok, Dr. Ying Zhang, Dr. Rebecca Chung-hee Kim, Zaleha Yazid, Julie Kui-lin Liu for their conversation over the years. It was a pleasure to work with all these people and to benefit from their knowledge. Extensive thanks to all the interviewees who helped me tremendously with the field entry and data collection.

My special thanks go to my father, Chiang Mai University, and Faculty of business administration, Chiang Mai University for contribution of my scholarship. Without them I might not have opportunity for this PhD Study.

Last but not least, the greatest contributions have been from my lovely family: my wife, my son, and my father and mother who always support me with unconditional love and patience.

Khongphu Nimanandh, February 2012

# Abstract

This research examines the influence of cultural dissimilarity on the internationalisation process behaviour of indigenous Thai SMEs, focusing on the impact of culturally-derived risk perception on the way in which these firms selected their markets, their choice of entry mode, their pace of initial internationalisation, and the nature of their subsequent international expansion and development. The overarching aim of this study is to explore the applicability of internationalization process theory (developed primarily in the Anglo-European context) in the Thai societal/business context, and in to examine in particular how far any differences observed in the internationalisation process behaviour of Thai SMES are due to risk-related perceptual variations.

In pursuit of this objective an exploratory, interpretive methodology is pursued, using predominantly qualitative techniques for data collection and analysis sourced from eight SMEs. In-depth semi-structured interviews are adopted as the major means of data collection complement with observation, diary notes, and documentation from various secondary sources.

There are a number of key findings from this research. Firstly, the examined Thai SMEs exhibit demonstrably *differing* patterns of internationalisation process behaviour from existing internationalisation process theories focused in open, global, primarily the Western or Anglo-European-based context, particularly USA, Sweden, Denmark, and Australia. Secondly, differing risk perception levels among my sample of SME managers/owners appears to affect significantly – specifically, *inhibit* - their internationalisation process behaviour, most obviously in their lack of progression (either to date or intended) to modes of market involvement/commitment beyond that of exporting. At the individual level there were also variations in risk-related behaviour among my sample managers – and these were found to affect their internationalisation process behaviour more indirectly, specifically as applied to their perceived lack of resource levels as well as their perceived lack of knowledge/understanding.

In serving to identify and explicate these important factors this study contributes to the sparse but growing body of work which questions the cross-cultural applicability of existing internationalisation process models, particularly for the burgeoning cohort of SMEs not only in Thailand but right across the emerging Asian continent.

# Chapter 1

# Introduction

The increasing globalisation of the business world has made the subject of internationalisation of the firm highly topical, especially due to its widespread usage in many firms in today's marketplace. However, research on internationalisation of the firm has traditionally focused on large multinational enterprises as the unit of analysis. This is in spite of the fact that SMEs are also hugely active in international markets.

It is therefore important to consider the internationalisation process of the small and medium-sized enterprises (SMEs) as the SMEs sector is considered one of the principal driving forces in a nation's economic growth and development. The emergence of SMEs internationalisation is regarded as a key ingredient that contributes to the national economy, especially of developing countries. Due to the rapid change of the world economic situation, greater international competition and saturation in domestic markets are prompting increasing numbers of SMEs to become involved in international activities (UNCTAD 1993; OECD 1997, 2000; Reynolds 1997).

However, SME internationalisation research, as with the vast majority of internationalisation research, is centred within the empirical context from which the initial theory was originally constructed loosely described as the 'Western' or Anglo-European-based context, particularly USA, Sweden, Denmark, and Australia. Given that such studies have been developed and tested in these contexts almost exclusively, there remains a question mark over how far these findings are applicable to contexts that do not share their cognitive and behavioral norms and values, despite the small body of work conducted to date (e.g Elango and Pattnaik 2007; Thai and Chong 2008; Andersson *et al.* 2006).

It is therefore both timely and important to consider further the process of SME internationalisation in contexts that differ markedly from those traditionally – and to this day – used in the internationalisation literature. The available literature suggests that very few studies have focused on the internationalisation of SMEs in developing Asian economies. Therefore, this present study has particular interest in developing Asian economies, specifically Thailand. Thailand is the second largest economy in Southeast Asia (www.worldbank.org) and forms the regional centre for a host of Western multinationals in Southeast Asia (Andrews and Chompusri 2001). However, there is very little systematic research on the internationalisation process of Thai SMEs.

In structural terms, since Thailand had faced the economic crisis in 1997, the business environment has changed dramatically. The SME sector has become acknowledged as a specific economic category contributed significantly to the country's economic recovery and development. It plays a significant role in employment, income generation, and increasing economic value added (www.sme.go.th). Indeed, SMEs play a crucial entrepreneurial role in Thailand. In 2007, 99.6% of the total enterprises in Thailand were SMEs. They accounted for 76% of total enterprises' employment and contributed 38.24% of the total GDP. Thailand's economy mainly relied on export activities as 61.9% of total GDP was from the export value. Also, export activity was very important for SMEs as 48.8% of SMEs GDP came from export (www.sme.go.th). See Appendix 1-8 for details.

The development of SMEs towards operational internationalisation is one of the main national strategies according to the National Economic and Social Development Plan (www.sme.go.th). The formerly overlooked small and medium-sized enterprises (SMEs) prior to the economic crisis in 1997 are now being turned to as one of the main engines for sustainable economic growth. Realising their importance and potential, the government has initiated a package of policies, aiming to foster SME development by reducing various problems facing SMEs with the goal of increasing their export capability (see Appendix 9-14 for more details).

Importantly, Thailand embodies a specific cultural context which, intuitively, may cause the behaviour of indigenous SMEs – through their managers – to behave differently from those operating in other cultures, for example from USA, Scandinavia, Australia and other Western-based cultures. Thai national culture is cohesive and strong and has endured for over a thousand years without Western colonisation (Andrews and Chompusri 2001). According to prominent management culture theorists like Geert Hofstede (2001) cultural differences can be identified, categorised into dimensions and then gauged/compared. Thai culture differs significantly from Anglo-US and European cultures (e.g. USA, Australia, Sweden, Denmark) in every dimension of cultural dissimilarity to emerge from relevant international management theory (Nimmanandh and Andrews 2009).

A major cultural difference distinguishing Thailand from cultures such as those mentioned above is one of 'uncertainty avoidance'. This dimension holds important implications for the perception of risk among societal inhabitants. More precisely, according to theorists, Thai culture exhibits significantly higher uncertainty avoidance and is also likely to hold less tolerance for ambiguity compared to the Western-based cultures where the extant internationalisation process theories are developed and executed, particularly USA, Sweden, Denmark, and Australia (Hofstede 1980, 1997; Bhagat *et al.* 2002). This implies that Thai cultural inhabitants maybe less willing to take risk than their counterparts in these countries, and that they are more risk averse in their business dealings.

Managerial perception of risk is considered as one of important factors influence the internationalisation of firm (e.g. (Johanson and Vahlne 1977, 1990; Sullivan and Bauerschmidt 1990; Ahmed *et al.* 2002; Acedo and Jones 2007). It affects firm's international decisions, pace of internationalisation, choice of entry modes as well as international development. However, as Johanson and Vahlne (2009, p.1432) argue that *"it would appear that neither we nor other researchers really know much about the propensity for taking risks either in the past or now"*. Adding to this knowledge deficiency is the fact that risk perception has been considered to vary across cultural boundaries (Boutempo *et al.* 1997; Weber and Hsee 1998; Weber *et al.* 1998).

Therefore, cultural differences in risk perception may at the source of difference in the way SMEs in different cultures behave on their internationalisation process behaviour. To date, however, even in the small number of studies which examine the internationalization process behaviour in emerging Asian environments, the importance of this variable has not, explicitly, been considered in any depth (see e.g. Andersson *et al.* 2006; Thai and Chong 2008).

The main interest of this research is to explore whether, to what extent, and how Thai societal culture (specifically perception of risk) influences the internationalisation process behaviour of Thai SMEs, and thus differentiate the Thai SMEs internationalisation process behaviour from the contemporary internationalisation process theories.

# 1.1 Research Aims

This research aims to examine the cross-cultural applicability of internationalisation process theory, specifically perception of risk, through an exploration of SME behavior in Thailand. This can be formulated into the following questions:

## *Questions*

1) To what extent do existing theories of internationalisation predict the internationalisation process behaviour of Thai SMEs? How, if at all, does our existing understanding need to be refined in order to accommodate the traits that characterise the Thai societal cultural and business context?

2) How does the risk perception characteristic of Thai societal culture – which is induced by moderately high uncertainty avoidance (UA) and relatively low tolerance for ambiguity – affect the internationalisation process of Thai SMEs?

### *Objectives*

In addressing this overarching aim a number of key building blocks – stated below as objectives – need to be executed:

- Classifying and comparing existing theories of SME internationalisation
- Exploring the specific internationalisation process of Thai SMEs
- Identifying the key factors which affect the internationalisation process of Thai SMEs
- Assessing and evaluating the role of cultural differences – particularly perception of risk – in the internationalisation process behaviour of Thai SMEs

## 1.2 Rationale of the Research

My primary motivation lay in contributing to the emerging body of research on the internationalisation of SMEs, refining extant understanding of the distinctive nature and conditions of SMEs internationalisation in to date under-examined environments by putting in the context of Thai SMEs, particularly as concerns perception of risk. In this way, I will seek to establish richer insights into the drivers of SMEs internationalisation than are possible in current scope of internationalisation theories. In particular it will improve our knowledge of the process of internationalisation in SMEs based in transformational economies such as Thailand's.

In practical terms this may be of interest for Thai SMEs that are either in the beginning of interest or starting in the internationalisation and even Thai SMEs which currently involve in the internationalisation process. Additionally, this should not only benefit local SMEs but also could be applied, possibly, to SMEs in Southeast Asia (such as Malaysia, Indonesia, Vietnam, Laos, Myanmar, and Cambodia) or, more widely, to other cultural contexts expressing similar perception of risk.

Furthermore, this research should be significant within the academic community as to determine whether the framework developed will be useful if applied to other circumstances and can be used as a pre-study for other research. Finally, this research may be of interest to public authorities involved with SMEs growth and development, who are willing to offer opportunities to internationalise. An encouraging fact and future outcomes are likely to create confidence among participants.

## 1.3 My Approach

In order to explore the overall influence of risk perception on the internationalisation process behaviour of indigenous SMEs in Thailand, I took eight companies as my sample from the handicraft manufacturing industry, specifically those that already serve international markets. Repeat, semi-structured interviews (as well as the analysis of company information and notes made from direct observation) were held with those owners/managers with overall responsibility for the internationalisation of their respective organisations – usually comprising the owner/founder along with the senior manager in charge of international operations. These interviews – and the discussions, attitudes, opinions and feelings these uncovered - formed the major components of my data.

## 1.4 Summary of Major Findings

The findings from this present research illustrate that the examined Thai SMEs exhibit differing patterns of internationalisation process behaviour and that existing internationalisation process theories (e.g. Johanson and Vahlne 1977, 1990; Cavusgil 1980; Czinkota 1982; McDougall *et al.* 1994; Oviatt and McDougall 1994, 1995; Knight and Cavusgil 1996) neither fully account for nor predict fully this behaviour. Most significantly, they do not internationalise in the incremental gradual manner through the progressive stages suggested by the stage theories (e.g. Johanson and Wiedersheim-Paul 1975; Johanson and Vahlne 1977, 1990; Cavusgil 1980; Czinkota 1982). Moreover, although the majority of the examined SMEs expressed rapid initial internationalisation behaviour and can be classified as ‘born global’ firms (e.g. Andersson and Wictor 2003; Andersson *et al.* 2006; Knight and Cavusgil 1996; Oviatt and McDougall 1994), they do not in any case progress their internationalisation process further than exporting. All of the SMEs in this present research effectively ceased their internationalisation activities at the stage/mode of exporting – with no future plans to develop their internationalisation operations any further.

My findings suggest that three major variables - *varying levels of risk perception*, *lack of resources* and *lack of knowledge/understanding* - play a significant role in the internationalisation process behaviour of my sample SMEs. Lack of resources of the firm and/or owner/manager’s lack of knowledge/understanding of international markets help determine the firm’s decision to use exporting as the initial form of entry mode, their decision not to self-manage the export process from the inception of their international market involvement, and their decision not to progress beyond exporting.

Regarding risk perception, my findings reveal that risk perception affected the internationalisation process behaviour of the examined SMEs in two ways i) *directly* – in the course of decision to internationalise, self-manage of exports, and decision not to progress beyond exporting and ii) *indirectly* through exacerbating the conditions of lack of knowledge/understanding and/or lack of resources when deciding on the choice of entry mode, whether or not to self-manage the export process from inception of firm’s international market involvement, and whether to progress beyond exporting.

Furthermore, my findings strongly suggest that the effect of risk perception outlined above occurred at two broadly-defined levels, specifically at the individual level (where the influence is indirect) and at the societal-culture level (where the influence is more direct) in the course of decision to internationalise, self-manage of exports, and decision not to progress beyond exporting.

At the individual level, there are differences in risk perception found among my owners/managers – based on personality and cognitive differences – that influences their internationalisation process behaviour, specifically in terms of the decision to serve international customers, the pace of internationalisation, and the choice/progression of indirect to direct exporting. However, there also appear to be more fundamental, deep-set risk perception differences that exist at the societal-culture level and that affect all my respondents emphatically in the same way – namely in that, as concerns their overall internationalisation development, they all show reactive internationalisation process behaviour and all perceive anything beyond exporting to comprise a far greater risk and have never – and would never – contemplate such a progression.

## 1.4 Structure of the Dissertation

This dissertation is structured as follows:
Chapter two presents a review of the relevant research, with the attempt to give a holistic view about the issue of the internationalisation process of firm. This chapter is started from a general and theoretical view of the issue. The next section is focused on the SMEs scope where the phenomenon is explored. Later, managerial risk perception and its role in internationalisation process are investigated as the main concern to internationalisation process. Subsequently, the concept of cultural risk values is illustrated, followed by the background of Thai culture particularly risk values in Thai culture which different from Western cultures is explained. Following the review of the literature, the theoretical framework proposed for this research and a series of questions which need to be explored are indicated.

Chapter three presents the methodology that will be adopted in order to address the research, outlining and justifying the methods by which the data is collected, and analysed. This includes a discussion of the research strategies as well as the presentation of the research methods employed in this research.

In Chapter Four and Five, the researcher will analyse the collected data with the intention of drawing out patterns and relevant findings as well as discussions regarding the research questions: 1) to what extent do existing theories of internationalisation explain the internationalisation process behaviour of Thai SMEs? How, if at all, does our existing understanding need to be refined in order to accommodate the cognitive and normative traits that characterise the Thai societal and cultural context? 2) How does the risk perception characteristic of Thai societal culture – which is induced by moderately high uncertainty avoidance (UA) and relatively low tolerance for ambiguity – affect the internationalisation process of Thai SMEs? These two chapters present the case descriptions, and discuss the case findings in accordance with these research questions. There are divided into two main sections; 1) the internationalisation process of the examined SMEs in Chapter four and 2) role of risk perception on the internationalisation process of the examined SMEs in Chapter five.

Finally, in Chapter Six, the evaluated facts will be concluded systematically with an overall idea of the investigation and analysis. The contributions and limitations of the present research will also be summarised with suggested direction for further research and practice.

# Chapter 2
# Literature Review

This chapter, spanning multiple research streams, consists of five main sections which address – in a progressively more focused way – existing knowledge relevant to the internationalisation process of Thai SMEs. The first section reviews the different bodies of research addressing the generic internationalisation process of the firm. Because theories on internationalisation process of SMEs grow out of the core theories of the internationalisation process of firm, it is necessary to first discuss theories of the internationalisation process of firm that shape the later thinking on the emergence of SMEs internationalisation process. The chapter therefore begins with the overview of internationalisation and introducing major theories of the internationalisation process of firm in general. After that, the second section is concerned about internationalisation behaviour of SMEs in particular.

The third section of the chapter focuses on risk perception and its role in internationalisation process, discussing perception of risk of decision makers as a key variant in internationalisation process of the firm. The fourth section examines societal level differences in risk perception, grounded in themes of cultural dissimilarity. The following section introduces the salient elements of Thai culture, particularly the indigenous cultural risk values which characterise Thai business - values markedly different from the Anglo-European or 'Western' cultures (for example Sweden, the US and Australia) that dominate the extant internationalisation theories. Finally, explaining the impact of risk perception on SME internationalisation in the Thai cultural context. This leads to proposition of key features of cultural difference specifically on perception of risk influences on internationalisation process of SMEs, particularly in the Thai context rather than the Western context. At the end of this section, the researcher illustrates the theoretical framework for the research and a series of questions for exploration.

# 2.1 The Internationalisation Process of the Firm

## 2.1.1 Overview of Internationalisation

The internationalisation process of firms has received significant research attention (Hadjikhani and Johanson 2002). The term 'international' usually refers either to an attitude of the firm towards foreign activities or to the actual carrying out of activities abroad (Johanson and Wiedersheim-Paul 1975). Naturally, there is a close connection between attitudes and actual behaviour as the attitudes are the basis for decisions to undertake international ventures and the experiences from international activities influence these attitudes (Johanson and Wiedersheim-Paul 1975; House *et al.* 2004).

The process of internationalisation has been the subject of widespread theoretical and empirical research. The term internationalisation can be used for a wide range of dimensions such as strategy, organisational structure and products (Chetty and Campbell-Hunt 2003). It has been frequently used to describe the growth in a firm's international operation (Johanson and Wiedersheim-Paul 1975; Johanson and Vahlne 1977; Cavusgil 1980); however it can also be understood as a kind of business where national and cultural boundaries are crossed. It embraces not only international trade or foreign production but also transport, services, banking, or know-how, technology and knowledge transfer (Ball and McCulloch 1999).

There are various definitions of internationalisation. Welch and Loustarinen (1988, p.84) define internationalisation as "*the process of increasing involvement in international operations*". They look at both sides of process which they call the inward-outward interconnection, using counter trade and subcontracting to illustrate how success in outward growth is tied with inward performance (Welch and Loustarinen 1988, 1993). They also stress that internationalisation is not a continuous process because de-internationalisation can occur at any stage. They assess the extent of a firm's "increased international involvement" on a number of different dimensions, including; operation method, markets, sales objects, organisational structure, finance, and personnel.

Similarly, Calof and Beamish (1995, p.116) define internationalisation as "*the process of adapting firms' operations (strategy, structure, resources, etc.) to international environments*". In this article, Calof and Beamish's (1995) definition is used as it includes de-internationalisation, which happens when a firm has to reduce its international sales or withdraw from the international markets. Internationalisation is not always a forward progression as firms can be de-internationalisation by dropping a product (Calof and Beamish 1995); by withdrawing from foreign direct investment and returning to exporting (Chetty 1999); or by reducing its international activities or by withdrawing altogether from international operations (Benito and Welch 1997).

Another view is that offered by Beamish (1990, p.77), who identifies internationalisation as: *"the process by which firms both increase their awareness of the direct and indirect influences of international transactions on their future, and establish and conduct transactions with other countries"*. This definition represents the logic of firm's strategy in internationalisation and can be widely understood. Moreover, this definition is perhaps most useful in that it integrates aspects of the different views into one holistic interpretation of the internationalisation concept (Coviello and McAuley 1999). Firstly, Beamish's (1990) definition integrates the internal learning of the organisation with its patterns of investment. As such, it recognises that internationalisation has both behavioural and economic components. Secondly, the definition is process-based. This implies that internationalisation is dynamic and evolutionary. Thirdly, the definition is not restricted to outward patterns of investment and thus allows for the firm to be involved with inward internationalisation activities such as importing and countertrade. Fourthly, the definition implies that during internationalisation, relationships established through international transactions might influence the firm's growth and expansion to other countries.

The term internationalisation process has been frequently used to describe the growth in a firm's international operation. Several traditional studies of internationalisation have indicated that internationalisation of the firms is a process in which the firms gradually increase their international involvement (e.g. Johanson and Wiedersheim-Paul 1975; Johanson and Vahlne 1977, 1990; Cavusgil 1980; Cavusgil and Nevin 1981). These studies considered internationalisation process to be a gradual, sequential process through different stages, with the firm increasing its commitment to international operations as it proceeded through each stage, where the stages of involvement in international markets correspond with the development of strategic thinking and long term resource commitment.

However, the emergence of new stream of literature on Born Global firms presents a significant challenge to this traditional view on the internationalisation of the firm. Firms may not experience these stages instead of this they could be internationalised from their inception or shortly after (e.g. Knight and Cavusgil 1996; Madsen and Servais 1997; Oviatt and McDougall 1994; Rennie 1993). The Born Global phenomenon is probably more common today, when internationalisation may be less complicated and risky because of lower trade barriers and cheaper and faster transportation and communication (Andersson *et al.* 2004; Knight and Cavusgil 1996). Furthermore, there are abundant recent empirical evidences showing that not all firms internationalise gradually in a stepwise manner, some firms internationalise quickly and right from their inception (e.g. Andersson and Wictor 2003; Andersson *et al.* 2006; Moen 2002; Pla-Barber and Escriba-Esteve 2006; Rialp *et al.* 2005).

Within the studies of internationalisational behaviour, researchers have concentrated almost exclusively on finding industry and firm determinants of international activities. Relationships between environmental variables and foreign activities have rarely been subject to a systematic, empirical analysis (Cavusgil and Nevin 1981). The previous research (in the 1970s) dealt with identifying technology and product variables as important structural factors contributing to the process of export expansion, in particular. Structural factors have often been regarded as critical determinants in the exporting activity of an enterprise, but the evidence to support the effect of size, product and technology orientation was conflicting. Nevertheless, in 1980s research attention had been directed towards behavioural determinants of the process of internationalisation (e.g. Cavusgil 1980, 1982; Reid 1981, 1983). Research in this respect had been dealing with the role of the decision makers' perception of foreign markets, expectations concerning these markets and the perception of the firm's capability of entering these markets. The available research gives tentative support to the existence of individual managerial factors influencing the export behaviour of firms.

Furthermore, the studies in late 1980s and early 1990s have given alternative explanations of internationalisation process to an emerging body of research by presenting new perspective on the existing literature available, for example the network perspective (e.g. Johanson and Mattsson 1988, 1992), and born global or international new ventures (e.g. McDougall *et al.* 1994; Oviatt and McDougall 1994). However, the attention of studies from late 1990s and early 2000s has been paid to testing and challenging of existing theories and models rather than contribution of their potential complementarities (e.g. Knight and Cavusgil 1996; Gankema *et al.* 2000; Almor and Hashai 2004).

In conclusion, there are many theoretical and empirical studies on internationalisation process of firm. They seek to give explanation of internationalisation process of firm in different perspectives. Nevertheless, there is no theoretical nor even empirical consensus as to which forces generate the process of internationalisation and which forces hold it back. The following sub-section discusses a variety of the internationalisation process theories.

## 2.1.2 Internationalisation Process Theory

The literature on the internationalisation process of firms has been reviewed by a variety of authors (for example Andersen 1993; Madsen and Servais 1997; Coviello and McAuley 1999; Cuervo-Cazurra and Ramos 2002; Bell *et al.* 2004). Therein, various conceptualisations are given. Along with these, there are two main streams of theories regarding the internationalisation process; the economic approach and the behavioural approach. These two approaches observe the internationalisation process of firm from considerably different angles.

The economic approach has its base in mainstream economics. It views internationalisation as engagement in cross border activities motivated by rational economic considerations (e.g. Buckley and Casson 1976, 1998; Dunning 1988; Vernon 1966). Among the widely known theories following the economic approach are the transaction cost theory, the product life cycle, and Dunning's eclectic theory.

On the other hand, the behavioural approach (of more relevance for this study based in Thailand, as will be seen later) is regarded as behavioural oriented and focuses on the firm's behaviour. It views internationalisation as an evolutionary process, during which the firm increases its international involvement as a function of heightened knowledge and market commitment (e.g. Aharoni 1966; Johanson and Wiedersheim-Paul 1975; Johanson and Vahlne 1977, 1990; Welch and Loustarinen 1988). Several models following the behavioural approach have been proposed to explaining the internationalisation process of firm. Among the widely known traditional theories following the behavioural approach are Aharoni's decision making model and the Stage models of internationalisation: Uppsala internationalisation model and the Innovation-Related internationalisation model.

Divergent and sometimes contradictory empirical results have led many authors to seek complementary frameworks to explain the internationalisation process behaviour, Network approach to internationalisation, and Born Global perspective have also come to wield significant influence. As we shall see later, these approaches are of import when considering Thai-based SMEs. I will now review the existing internationalisation process models/theories will be covered on all above internationalisation process models/theories.

### 2.1.2A The Economic Approach

Essentially, the economic approach builds on economic reason to explain the choice between foreign market-servicing modes. A firm's foreign expansion is examined as a series of static choices, where foreign market-servicing mode is chosen by evaluating economic costs of different transactions.

#### *The Transaction cost Approach*

The roots of the transaction cost approach go back to Ronald Coase (1937) who argued that there are conditions under which it is more efficient for a firm to create an internal market rather than enter foreign ones. Such conditions are the transaction costs of foreign activities. In a perfect market, transactions are carried out free of transaction costs. However, these conditions rarely exist in reality. Transaction costs are incurred because there is a need to devote efforts to reorganising, carrying out and controlling transactions among interdependent firms. The transaction cost approach tries to explain the institutional form of those transactions (Johanson and Mattsson 1987).

Transaction costs theory has been frequently applied to explain a firm's international entry mode choice in foreign markets. Firms would be better expanding by internalising their international operations rather than coordinating them through the market mechanism in the presence of market imperfections (Williamson 1991). This is because the transaction costs associated with managing an internal market across borders and the related requirement to decentralise many value-added activities are lower than those of using external markets due to the existence of market imperfection, especially arising from difficulty of pricing proprietary assets, such as knowledge and ideas (Buckley and Casson 1976). The transfer of tacit and intangible knowledge can be costly in an imperfect market because of the difficulty of the external market to determine the optimal pricing of these proprietary assets. This difficulty predisposes firms to choose internalised and hierarchical organisational structure over contractual arrangements for their foreign operation (Hennart 1988).

This approach assumes that a MNE has developed a firm-specific advantage in its home market. Usually this is in the form of internally developed intangible assets, primarily some form of know-how, that give the firm some superior production, product, marketing and/or management knowledge. The market for know-how, however, under the assumption of economic approach, is characterised by imperfections which can create complications in its pricing and transfer and consequently increase the associated costs of transacting with a partner. A high level of transaction cost results in a preference for internalising the transaction (Johanson and Mattsson 1987; Madhok 1997). Firms therefore decide to produce abroad if they perceive that the reduction in transaction costs resulting from the replacement of the external imperfect markets will be greater than the cost of organising such activities internally. Otherwise, foreign markets will be supplied by exports, licensed sales, or some other form of international activity. Internalisation of transaction does have associated administrative and risk-taking costs. These costs will be lower the less different the foreign market is from the home market. Thus, this approach predicts that international expansion will start in nearby markets (Johnson and Mattsson 1987).

According to the transaction cost approach, firms choose the organisational form or entry mode, and location for which overall transaction costs associated with their international operations are minimised (Hennart 1988; Madhok 1997). Characteristics of a transaction are analysed and the efficient management of transaction is viewed to be the force of the firm's competitiveness (Madhok 1997). Recent studies generally support this view, though they emphasise that the success of an international entry strategy is not only affected by the ability to reduce transaction costs but also by the suitability of the institutional context, particularly in relation to legal restrictions, and the cultural context affecting the investment risk in the host country (Narula and Dunning 2000; Mudambi and Navarra 2002).

### *The Product Life Cycle*

One of the pioneering models relating to the internationalisation process of firm is the product cycle model (Vernon 1966, 1979), which is a life-cycle explanation of the process of organisational change. The product cycle theory argues that MNEs exist because of the cycle of product development. The internationalisation process of the firm is considered part of the life cycle of the product (Vernon 1966). He put emphasis on innovation, uncertainty of early product development and marketing, the cost implications of scale economies, and oligopolistic rivalry and copying.

According to this model, firms make direct foreign investments to protect markets that they originally served through exporting, only after products mature and competition becomes cost-based. Foreign investment in low-cost-of-production countries allows the foreign investor to compete with local entrepreneurs who enjoy low production costs and who seek to make inroads into export market (Vernon 1966). Thus, Sales and production move across countries based on the stages of the product: introduction, growth, maturity, and decline.

In the introduction stage, the firm develops an innovation and introduces the product in the home country, undertaking some exports in order to gain economies of scale. In the growth stage, sales are increasing rapidly and foreign market demand increases. The firm exports and later develops production facilities as demand builds in other countries. The product starts to become more standardised. In the maturity stage, the product becomes highly standardises, demand levels off and costs become a major competitive weapon, and the firm moves production to countries with low-cost labour as markets saturate. Finally, in the decline stage, markets in advanced economies decline and income is switched to satisfy the demand for new products. The firm closes production in the home country as demand disappears and imports from less developed economies the now-standardised product. All production of the original innovation is based in the low developed countries (ibid).

The author of the original paper propounding this theory later revised the model in light of developments in international business such as the shortening of life cycles or the existence of multinational enterprises that move innovations across markets, limiting the scope of its applicability (Vernon 1979).

In reality very few products follow such a long descriptive cycle. It is actually not easy to tell which stage the product has reached at a particular point in time. The model however, is more an account of the movement of production across countries at the industry level rather than an account of the internationalisation of the firm (Melin 1992). The product life cycle mode was rightly criticised for its limited applicability and for being too deterministic. Moreover, it applied to individual products and even to industries but only marginally to firms (Almor *et al.* 2006).

### ***Dunning's Eclectic (OLI) Paradigm***

The concept of the eclectic paradigm of international production was first put forward by John H. Dunning in 1976. The intention was to offer a holistic framework by which it was possible to identify and evaluate the significance of the factors influencing both the initial act of foreign production by enterprises and the growth of such production (Dunning 1988). Dunning's eclectic paradigm of international production is the integration of many internationalisation theories. It covers the mainstream theories like factor endowment theory, monopolistic advantage theory, transaction cost theory, internalisation theory, and location advantages ideas. As Dunning (1988) explains *"The choice of the word eclectic was an ambitious yet deliberate one. It was meant to convey the idea that a full explanation of the transnational activities of enterprises needs to draw upon several strands of economic theory"* (Dunning 1988, p.1).

The theory offers a unifying framework for determining the extent and pattern of foreign owned activities. It posits that multinational activities are driven by three sets of advantages, namely ownership specific advantages or firm-specific advantage, location specific advantages, and internalisation specific advantages (OLI). Each of these factors is associated with certain advantages that can enhance firm performance. It is the configuration of these sets of advantages that either encourages or discourages a firm from undertaking foreign direct investment and becoming a multinational enterprise (MNE). Additionally, firm's decision to enter a foreign market and the choice of entry form depend on a combination of these three advantages that are necessary conditions for entry into foreign markets (Dunning 1988).

A firm will become a MNE and engage in the international value-adding activities, the following three conditions need to be satisfied (Dunning 1988). The first condition is that the firm must possess certain comparative advantages, which are specific to the nature of their ownership over the local competitors. It means that the firm, as an international player, must have some ownership advantages to cover the cost of international production or outweigh the disadvantages of doing business abroad. The second condition is that the international firm can make use of internalisation advantages to further exploit its competitive advantages over local firms in the foreign market. The third condition is that firm need to use some specific resources in the foreign country in combination with the ownership and internalisation advantages.

As long as firms contemporarily possess all the three OLI advantages, they can engage in FDI activities. If the firms have the ownership and internalisation advantages, but lack of location advantages they will choose domestic production and exporting overseas. If the firms only possess the ownership advantages, they can not transfer the comparative advantage within their organisations. The firms have to transfer this competitive advantage in the external market and choose licensing or franchising.

***Ownership specific advantage***

Dunning developed monopolistic advantage theory as his ownership advantages sub-paradigm. This refers to an organisation's access to tangible and intangible assets that foreign competitors do not possess or do not have in the same measure. They can also include the cultural, legal and institutional environment in which endowments are used, or the market structure of the industry in which the firm competes (Dunning 1981). Dunning (1988) explains that the ownership specific advantages must be sufficient to compensate for the costs of setting up and operating a foreign value-adding operation in addition to those faces by indigenous producers or potential producers.

Another important ownership advantage may reside in a firm's ability to take advantage of common governance opportunities across borders (Dunning 1993). Such governance opportunities arise from economies of scale, scope, and learning that attend common ownership across national borders. Firm will differ in their ability to extend common governance to operations in other countries.

Furthermore, Dunning (2002) has extended the notion of ownership specific advantages to include relational assets, defined as the ability to engage in beneficial relations both within the firm and with other firms and agents. Relational assets allow firms to access resources controlled by others, and to govern their joint use.

Ownership specific advantages have various possible forms in different types of enterprises. Many evidences show that a great proportion of MNEs' international productions are concentrated on R&D, marketing expenditures, scientific and technical workers, product innovations and differentiation. It implies that ownership specific advantages on intangible asset, especially the knowledge asset, are more likely to give rise to FDI than other type assets, such as physical asset. There are two reasons. First, the knowledge asset is easily transferred across space at low cost. Second, knowledge has joint character and it can also be supplied to additional production facilities at very low cost (Markusen 1995).

***Location Specific Advantages***

This refers to advantages that firm gains by locating its production or part thereof to foreign locations. As a MNE, firm has to make decision on selecting in which country to undertake FDI or international production. Dunning (1988) indicates that firm will engage in foreign production whenever it perceives it can combine spatially transferable intermediate products from the home country with immobile factor endowments or other intermediate products in another country.

Firstly, MNEs must possess the comparative advantages, or the ownership specific advantages, over the firms in foreign market. Secondly, MNEs will consider whether the factor endowments in host country, or location specific advantages, are attractive enough and worthwhile for them to invest in this country.

Dunning (1998) points out that the global economy has changed in last decades, which has affected the capabilities and strategies of MNEs. The most significant change in the motives of FDI, according to Dunning, has been the rapid growth of strategic asset-seeking FDI, which are geared less to exploiting an existing ownership specific advantages of an investing firm. In Dunning's view, location preferences of firms have also changed. MNEs are increasingly seeking locations which offer the best economic and institutional facilities for their core competencies to be efficiently utilised.

This is consistent with the fact that although scholars concentrated initially on factor endowments, especially labour costs and productivity (Bevan *et al.* 2004), recently multinationals have increasingly focused on 'created assets' (Narula and Dunning 2000) including knowledge-based assets, infrastructure and institutions of the host economy. According to Mudambi and Navarra (2002), institutions are important determinants of FDI because the represent the major immobile factors in a globalised market. Legal, political, and administrative systems tend to be internationally immobile frameworks whose costs determine the international attractiveness of a location. Institutions affect the capacity of firms to interact and therefore affect the relative transaction and co-ordination cost of production and innovation.

***Internalisation Advantages***

Internalisation advantages refer to MNEs' ability to efficiently internalise their ownership specific advantages to reduce the transaction cost during the international operation. The internalisation perspective is closely related to the transaction cost theory because they are both concerned with the minimisation of transaction cost and the conditions underlying market imperfection. MNEs prefer to transfer their privileged firm-specific advantages across national boundaries within their own organisations rather than renting them out to external parties in form of licensing agreement or franchising or even simply exporting their product from their home base, because the international firms could establish an internal market within their administrative fiat to avoid high and uncertain transaction cost caused by market failure (also called market imperfection) associated with the transfer of assets, particularly intangible assets such as knowledge (Dunning 1988, 1993). The greater the perceived costs of transaction market failure, the more appealing for MNEs to internalise their ownership advantages (Dunning 1988, 1993). However, transaction costs may not fully determine the range of ownership outcomes which may also depend on legal constraints on ownership, significant financial risk, and organisational advantages.

Internalisation advantage sub-paradigm is based on Buckley and Casson's (1976) internalisation theory. This theory takes market imperfections as the precondition of theoretical analysis. Internalisation theory stresses that firms prefer to retain monopolistic advantages within the enterprise because of market imperfection and transaction cost (Buckley and Casson 1976).

Internalisation theorists suggest that foreign direct investment occurs when the benefits of internalisation outweigh its costs. Exporting is often a mere "stepping-stone" toward foreign direct investment. Other modes of foreign involvement such as licensing risks the loss of know-how and technology and is a later entry mode (Fina and Rugman 1996).

From the internalisation theory perspective, a firm internationalises or expands extra-territorially because the transaction costs associated with international intermediate product markets can be reduced by bringing these markets within the firm. Therefore, firm internationalisation is a natural result of acquisitive self-interest. A complex vertical and horizontal web of cross-border transactions and value-adding activities are brought under the administration and co-ordination of a single multinational enterprise. The idea is that the firm must have a distinct comparative advantage or compensating advantage so that it is able to overcome the cost of foreignness (Buckley and Casson 1998). For example, a firm can invest in a foreign subsidiary rather than licensing its product and by so doing spread its products abroad while maintaining control over the product in the firm, resulting in better returns to the firm (Ball *et al.* 2002). At the heart of this theory are the location effect, that is concerned with where the value-adding activities will take place, and the ownership effect, that is concerned with who owns and controls the value-adding activities (Ghauri 2000). Internalisation theory in essence, is concerned with market entry choice modes, essentially, Why does an international firm choose one internationalisation mode over another? However, as we shall see with regard to my sample of Thai SMEs, the question can sometimes be redundant.

Internalisation theory also suffers from a number of shortcomings that limit its usefulness in explaining international business behaviour. To start with, the theory is based on market failure as being the main reason for internationalisation of the firm when in reality market success plays a great role in a firm's decision to internationalise. Secondly, to suggest that cost minimisation is the principal reason for internationalisation is a gross oversimplification and even a misrepresentation of real world dynamics of international business behaviour (Jones 1996). The theory is inward looking, in other words, it focuses on the firm's production process only and ignores the power of the final product market in internationalisation because this market cannot be internalised within an organisation's hierarchy. Internalisation recreates the very imperfection it initially sets out to overcome by establishing a monopolistic organisation that reduces market efficiency and increases social costs (Itaki 1991).

Therefore, a refinement and an enlargement of internalisation theory are found in the eclectic theory of international production (Dunning 1988, 1993). Internalisation theory has contributed to international business by bringing to the fore, issues related to a firm's cost of foreign activity and value of knowledge as an enabler of internationalisation and a trading commodity.

Dunning's Eclectic theory puts its emphasis on the issues of the fit between the firm and the market and the extent to which a MNE is best suited to own and operate in a specific market against both local and other foreign competition. The OLI paradigm asserts that successful MNEs arise because they develop competitive advantages at home, which can be transferred to specific countries through foreign direct investment. According to Dunning (1998) the OLI triad of variables may be likened to a three–legged stool; *"each leg is supportive of the other and the stool is only functional if the three legs are evenly balanced"* (Dunning 1998, p.45).

As recently stated by Dunning (2001), the eclectic paradigm is about both the importance of each individual advantage, and the configuration among them. The paradigm can therefore accommodate many different types and combinations of OLI variables, and thus becomes context specific. Ownership specific advantages can differ across countries and firms, resulting in different locations being attractive to different firms. Dunning suggests that these differences will depend on the type of international production (e.g. market-seeking versus resource-seeking), as well as on the country, region, industry, and the firm itself (Dunning 1993).

The major contribution of eclectic theory is to raise awareness of a firm's need to build and maintain sustainable competitive advantages if it is to succeed in foreign market exploitation (Mtigwe 2006). The eclectic framework is supported by a number of researchers, at least in principle, e.g. Anderson and Gatignon (1986), Kogut and Zander (1993), Woodcock *et al.* (1994) and Banerji and Sambharya (1996). However, there are some detractors; Itaki (1991) argues that ownership advantage in the model excludes the cost of acquiring that advantage, such that the net gain of possessing that advantage may in fact be negative. Furthermore, ownership specific advantages and location specific advantages are inseparable and to separate them amounts to double counting.

It has also been criticised for its limited predictive power and overstating the overall cost of conducting international business, hence the underlying view that international business is the preserve of large multinational corporations that have enormous ownership specific advantages (Jones 1996). However, there is an increasingly large volume of international business activities that are conducted by small firms that may or may not possess the enormous ownership specific advantages of their larger counterparts, and yet they are not given serious consideration in the eclectic theory (Mtigwe 2006).

Andersen (1993, p.218) summarises the merit of the eclectic paradigm by viewing it as being *"more relevant at the later stages of the internationalisation process"*. Given that many small firms do not progress beyond a certain stage, this framework will be largely redundant in explaining their internationalisation behaviour (Fillis 2001). This is a point we shall return to later in the light of findings gathered from my sample of Thai SMEs. Furthermore, McDougall *et al.* (1994) find that in some international new ventures, entrepreneurs did not make internationalisation decisions on the basis of lowest cost location and neither did they attempt to internalise activities to the point where the benefits of further internalisation were outweighed by the costs. Strategic alliances were found to be common for international new ventures even though the firms ran the risk of losing proprietary know-how through opportunistic partner behaviour.

### 2.1.2B Behavioural Approach

Theories/models following the behavioural approach treat individual learning and top managers as important aspects in understanding a firm's international behaviour. This is also a factor we were to find among SMEs in Thailand. In the behavioural approach the focus is on the impact of international experience on the pace and direction of subsequent internationalisation. An important theme in this approach is the role of organisational knowledge in the internationalisation process. Internationalisation is viewed as a sequence of steps by which companies acquire experience and knowledge about external markets through the gradual commitment of resources and learning process.

#### *Aharoni's Decision Making Model*

Yair Aharoni's (1966) work is one of the earliest studies that abandoned the classic economic rationality, and instead applied the behavioral theory of the firm to FDI research (Li *et al.* 2004).

Aharoni (1966) adopted a behavioral approach in order to identify the reasons behind foreign investment and how a company manages this activity. Aharoni conceives a company as a political coalition of different interest groups. Consequently, he focuses on decision process of FDI under conditions of bounded rationality, uncertainty, and diverging interests. Satisfying instead of maximizing solutions is thus assumed to be reached in the decision making process.

Aharoni (1966) characterised the foreign investment decision as a complicated social process that is influenced by different attitudes and opinions, and social relationships both inside and outside the firm. He provided a rich description of individual and organisational behaviour over time and showed the crucial effect of perception and uncertainty in the course of this process (Buckley and Ghauri 1999).

According to Aharoni (1966), the first foreign investment decision is to a large extent a trip to the unknown. It is an innovation and development of a new dimension, and a major breakthrough in the normal course of events. There is some strong force or some drastic experience that triggers and pushes the organisation into this new path. This trigger compels the organisation to shift the focus of its attention and to look at investment possibilities abroad. It creates a situation that leads the decision maker to feel that an investment abroad may help him solve some urgent problem, carry on some activity that he has committed himself to maintain, or simply that such an investment may fulfill some important needs.

Aharoni stated that the decision to look abroad is a decision to look at the possibilities of a specific investment in a specific country, not a general resolution to look around the globe for investment opportunities. The most crucial decision is taken when the first venture abroad is considered. At this stage, the organisation has had no experience in the complicated field of foreign investment, although it often has had export experience. No standard operating procedure exists to give some guidelines in dealing with the problem. When subsequent foreign investment decision processes are carried through, the company will benefit from its experience in previous investments.

In any specific case, it is generally very difficult to pin down one reason for a decision to look abroad, or to find out precisely who was the initiator of a project. The decision results from a chain of events, incomplete information, activities of different persons and a combination of several motivating forces. The impact of any one of these forces depends on the social system it encounters. It depends on various feelings and social and organisational structures, on previous events in the company's history and on other problem areas facing the company at the time this force is encountered (Aharoni 1966).

### *Stage Models of Internationalisation*

Several theories and concepts have been suggested to capture the process of internationalisation, ones that all pertain to the experience of my Thai SMEs. Among these, the so-called stage models receive much attention (e.g. Andersen 1993; Petersen and Pedersen 1997; Eriksson *et al.* 2000b; Gankema *et al.* 2000) whereby the development is presumed to pass through consecutive stages of increasing commitment to international activities. It proposes that firms move sequentially through different stages as they develop their international activities (e.g. Johanson and Wiedersheim-Paul 1975; Johanson and Vahlne 1977, 2009; Cavusgil 1980).

There are mainly two stage models: the Uppsala model (U-model), initially developed by Johanson and Wiedersheim-Paul (1975), and then refined by Johanson and Vahlne (1977, 1990, 2009); and the Innovation-Related internationalisation model (I-model) conceptualised by Biley and Tesar (1977), Cavusgil (1980), Reid (1981), and Czinkota (1982).

Both the Uppsala internationalisation model (U-model) and the Innovation-Related internationalisation models (I-models) are based on a behavioural approach, regarding internationalisation as a process, and their central focus is a firm's involvement in foreign markets (Gankema *et al.* 2000). The U-model, with its emphasis on learning theory, is presented as a dynamic model, while the I-models portray the internationalisation process as a step-by-step development.

### *The Uppsala Internationalisation Model (U-model)*

Although there are several models of the internationalisation process in the literature, probably the most influential model has been the Uppsala model, originally conceived in the work of Johanson and Wiedersheim-Paul (1975) and Johanson and Vahlne (1977, 1990 – see also 2009).

The U-Model posits internationalisation as a process of increasing experiential knowledge and development over time (Johanson and Vahlne 2009). The main theme is a firm's behaviour during various establishment sequences in terms of markets and modes of entry to those markets. The firm's international behaviour in a single market is a consequence of a successively greater commitment. This sequence of stages is called the 'establishment chain' (Johanson and Wiedersheim-Paul 1975; Johanson and Vahlne 2009).

Johanson and Wiedersheim-Paul (1975) distinguish between four different modes of entering an international market, where the successive stages represent higher degrees of international involvement:
Stage 1: No regular export activities.
Stage 2: Export via independent representatives (agents).
Stage 3: Establishment of an overseas sales subsidiary
Stage 4: Overseas production/manufacturing units.

The assumption was the internationalisation of a firm develops according to the sequence of stages or the establishment chain. The sequence of stages was restricted to a specific country market and to explain the internationalisation across country markets, it was hypothesised that firms would enter new markets with successively greater psychic distance (Johanson and Wiedersheim-Paul 1975; Johanson and Vahlne 2009).

Johanson and Wiedersheim-Paul (1975) argued that many firms begin the internationalisation process when they are relatively small and develop their overseas presence gradually. They establish themselves in their domestic market first and then start to move abroad via a series of incremental steps. However, suggestions have been made that experienced firms may be able to jump stages and transfer learning from one market to another without having to go through each stage in each separate foreign market.

One important aspect in this model is ‘psychic distance’ between home and target markets. This concept is defined as factors preventing or disturbing the flows of information between a firm and its market (Johanson and Wiedersheim-Paul 1975). The model predicts that a firm will first target the markets that are most familiar, including factors such as differences in language, culture, political systems, level of education, business practice or industrial development, in order to reduce the perceived risk of the international operations and to increase the efficiency of information flows between the firm and the target market (Johanson and Wiedersheim-Paul 1975; Johanson and Vahlne 1977, 2009).

Johanson and Wiedersheim-Paul’s (1975) work has been further developed and refined by Johanson and Vahlne (1977, 1990). Johanson and Vahlne (1977) have formulated a dynamic model which focuses on an individual firm (particularly its gradual acquisition, integration and use of the knowledge of foreign markets) and on progressively increasing commitment to the foreign market. The model, which is further developed in the later study (Johanson and Vahlne 1990, 2009), incorporates some results from previous empirical studies of the development of international operations.

The original Uppsala model (Johanson and Vahlne 1977) sees the internationalisation process as a gradual, incremental/sequential process in which companies gradually increase their involvement in internationalisation process. Johanson and Vahlne’s (1977) U-model describes the process of the evolution of the company from a mainly domestic activity to a fully international profile as a slow, incremental process which involves the gradual acquisition, integration and the use of knowledge concerning the characteristics of foreign markets and operations, as well as an increasing commitment to the company’s resources towards international activities (see also Johanson and Vahlne 2009).

Therefore, the internationalisation process is explained as the product of a series of incremental decisions. They characterise internationalisation as a process which evolved from the interplay between the development of knowledge and market commitment (Johanson and Vahlne 1977, 1990). The model depicts the process as one of organisational learning and focuses on experience and emphasises learning by focusing on market knowledge and commitment. Compared to the earlier study (Johanson and Wiedersheim-Paul 1975), the role of psychic distance is reduced and the concepts of commitment and knowledge become the underlying basis of the model.

Johanson and Vahlne (1977, 1990) formulated a model explaining the dynamic character of internationalisation by incorporating change and the cycle of events into one mechanism. The model is constructed on two elements: the amount of resources committed and the degree of commitment, see Figure 2-1.

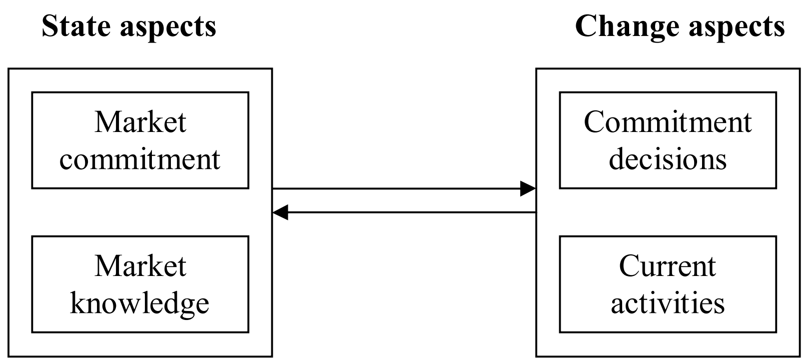


Figure 2-1: The internationalisation process of firm (Johanson and Vahlne 2009, p.26)

The main focus of this model is the distinction between the state and change aspects that is founded on four core concepts: market knowledge, market commitment, resource commitment decisions and the performance of current business activities (Johanson and Vahlne 1977, 1990). Market knowledge and market commitment at a certain point of time are assumed to affect the commitment decisions and how the activities are carried out in the subsequent period, which in turn will influence market knowledge and market commitment at later stages. A decision for market commitment depends on what the firm knows about the market and what it has committed to the market. Incremental progress addresses the reduction of perceived risk in the international market. Market commitment is explained in terms of the amount of resource commitment and the degree of commitment. The amount of resources can be seen as the size of the investment and the degree of commitment, which is concerned with transferring and using resources in alternative ways.

On the basis of these four concepts, and by making the assumption of incrementalism, the model predicts that the basic pattern of firms' internationalisation is: (1) to start and continue to invest in just one or in a few neighbouring countries, rather than to invest in several countries simultaneously; and (2) that the investments in a specific country are carried out cautiously, sequentially and concurrently with the learning of the firm's people operating in that market. Firms are supposed to enter new markets with successively greater psychic distance and the market investments develop according to the so-called establishment chain (Johanson and Vahlne 1990, 2009).

In the studies of Johanson and Vahlne (1977, 1990), the clear expression of stages from no export to direct investment (Johanson and Wiedersheim-Paul 1975) is replaced by successive and incremental commitment. The stages are presented as only one of the possible indicators. The concepts of commitment and knowledge are expressed in a broader, more extensive and clearer manner in the internationalisation process studies (Johanson and Vahlne 1977, 1990), based on the assumption that developing knowledge is fundamental to a firm's internationalisation (Johanson and Vahlne 2009)

However, the Uppsala Internationalisation model (Johanson and Vahlne 1977, 1990) divides knowledge into general and market-specific categories. Market-specific knowledge is gained by experience in the market whereas general knowledge is transferable from one country to another and assists in lateral growth. The more or better knowledge a firm has about a market, the more valuable is the resources and the higher will be the commitment to the market, especially concerning the experiential knowledge which can only be transferred through active involvement.

The model also claims that the objective of the firm is to increase in value. Over time, the company builds the experiential knowledge necessary to compete in the market (Johanson and Vahlne 1977), developing its internationalisation effort on a trial and error basis (Eriksson *et al.* 2000b) through a cycle of interactions between stage (market knowledge and market commitment) and change (commitment decisions and current activities) aspects (Johanson and Vahlne 1977, 1990).

The model has a strong life cycle view of the internationalisation process (Forsgren 2002), as it *"expects that the internationalisation process, once it has started, will tend to proceed regardless of whether strategic decisions in that direction are made or not"* (Johanson and Vahlne 1990, p.12). However, the Uppsala model also implies that additional market commitment as a rule will be made in small incremental steps with three exceptions (Johanson and Vahlne 1990). First, firms that have large resources experience small consequences of their commitments and can take larger internationalisation steps. Second, when market conditions are stable and homogeneous, relevant market knowledge can be gained in ways other than experience. Third, when the firm has considerable experience from markets with similar conditions, it may be able to generalise this experience to any specific market.

Nevertheless, the operationalisation of the U-model is organised around strategic choices and organisational forms, which are influenced by many other factors include forces facilitating or inhibiting exporting, information needs and the acquisition of information, foreign market selection and entry (including the effects of cultural distance), expansion and marketing strategies (Leonidou and Katsikeas 1996 cited Gankema *et al.* 2000).

This stage model has come under some criticism, even if its general acceptance in the research community as a valid description seems to be high (Johanson and Mattsson 1988). Some authors have argued that Uppsala model has some weaknesses thus, it has been criticised as deterministic and sequential (Andersen 1993; Melin 1992). Reid (1983) and Turnbull (1987) also argues that the model is too deterministic and general. According to Reid, the firm's choice of entry and expansion modes are more selective and context-specific, and can be explained by heterogeneous resource patterns and market opportunities. Firms will therefore use multiple modes of international transfers. Additionally, the model has been subject to the criticism that it does not consider the market and economic environment, that it is limited to the initial stages of internationalisation, and that it does not consider other models of development, such as acquisitions (Andersen 1993, 1997; Melin 1992). Furthermore, Forsgren (2002) argues that this model had a narrow view of learning which limited its ability to explain certain forms of internationalisation.

Johanson and Vahlne (1977, 1990) depicted only a forward momentum to internationalisation. Turnbull (1987) argues forcefully that 'orderly and progressive sequence' cannot be observed in many cases of internationalisation. The reversal of stages can occur and the stage of internationalisation is largely determined by the operating environment, industry structure and marketing strategy of firm. Furthermore, Turnbull (1987) supports this view by maintaining that internationalisation is a complex process but this model simplifies and ignores some factors such as, industry competition, market demand, operating environment, and government programs. Indeed, it might be argued that in this model, firms are sequentially internationalising their operations but many of them might skip certain stages and adopt several forms of foreign market entry at the same time.

Vahlne and Nordstrom (1993) and Johanson and Vahlne (2009) acknowledge to an extent the inadequacies of this stage model in explaining internationalisation behaviour in more recent today's markets. They argue that although many empirical studies seem to have validated the Uppsala model of internationalisation, some results also contradict the generally accepted description of this process. According to Andersen (1993) the Uppsala model does not consider specific situations, phases, firms or foreign markets i.e. the model is inherently generic. This is also acknowledged by Johanson and Vahlne (2009). Some reports indicate an increased tendency on the part of firms to leap-frog low-commitment modes or jump immediately to psychically distant markets. Additional factors that impact on the process include the industry type, product type and the particular cultural characteristics of the domestic and foreign country (Vahlne and Nordstrom 1993). Moreover, Vahlne and Nordstrom (1993) note that early internationalisation theory developed in Sweden centred on analysing businesses with relatively little international competition. This lack of competitiveness may explain why the company is modelled as developing slowly along a path. Buckley and Chapman (1997) believe that the Uppsala stages model was never intended to be applied in the broadest sense.

Alternatively, another view supports the gradual internationalisation development is Luostarinen's Internationalisation of the firm. Luostarinen's study (1989) supports the role of distance and step-wise development of internationalisation. He suggests the concept of distance as the combination of physical or geographical, cultural, and economic distance, so called business distance, that essentially affect the determination of the target market strategy of the firm. The distance is assumed to have an impact on the level of knowledge of the market. Generally, the smaller the distance, the higher the level of the stock of knowledge and the lower the degree of lateral rigidity and the higher the spatial preference for entering the market.

Luostarinen (1989) concludes that at the beginning of a firm's internationalisation, markets with a short business distance are penetrated first and thereafter the firm penetrates more distant markets. The short business distance means that the target country is physically and culturally close from the home country and that there exists a great positive economic distance between countries (ibid).

According to Luostarinen (1989), the internationalisation process is a multidimensional concept. Major components of a firm's internationalisation strategy involve a product, operation, and market concept (POM). By utilising selected changes in POM-posture of the internationalisation pattern, it is an orderly, chronological development process. The process is divided into four different stages: starting stage, development stage, growth stage, and mature stage.

The criterion for the transmission of the firm from one stage to another is that there must be a change in the product and/or operation posture. Change in the market posture alone means business distance expansion of present products through already utilised operation modes and is not regarded as sufficient reason for move from a lower stage to a higher one (Luostarinen 1989).

However, Luostarinen (1989) argues for his internationalisation development of the firm that there is no fully clear-cut pattern was found. There are several reasons for this. Firstly, differences in the firms' product or industry-related factors cause differences in their perceived possibilities to utilise different product and operation passive the firm's approach to internationalisation, the more ad hoc options. Secondly, the more external impulses direct its internationalisation development. Thirdly, the skills and knowledge in the firm increase through the accumulation of experience and information during the internationalisation process that increase the number of perceived, usable POM alternatives and thus offers a broader basis for the firm to diversify its internationalisation more in the later stages of the process than in the previous stages.

## *The Innovation-Related Internationalisation Models (I-models)*

The Innovation-Related Internationalisation Models (I-models) offer another view on incremental development. The model describes the internationalisation process in terms of adopting innovation (Andersen 1993). Bilkey and Tesar (1977), Cavusgil (1980), Reid (1981) and Czinkota (1982) considered the internationalisation of a firm to be a process analogous to the stages of product adoption. The innovation-related models of internationalisation consider each subsequent stage as an innovation for the firm (a new way of doing business) (Pla-Barber and Escriba-Esteve 2006; Gankema *et al.* 2000). In I-model, export involvement is operationalised by the ratio of export sales to total sales (export/sales ratio), thought to reflect the extent of a firm's dependence on foreign markets. Therefore, the various stages of the I-model are commonly operationalised via export/sales ratio. This ratio represents the extent to which a firm is involved in exporting.

Similar to Uppsala model, Innovation related model claims that internationalisation is a gradual and learning sequence process therefore, firm could internationalise their operations through different stages (Chetty and Campbell-Hunt, 2003).

All of these models propose a step-wise 'stage' approach – although the precise number of stages is contested – and generally support the notion entering markets that are easily understandable. However, less emphasis is placed on the development of alternative market entry modes. Rather, these stage models underline companies' increased dependence on exports and greater commitment to a growing number of foreign markets. Thus, from being unwilling to export, firms proceed through various stages to become experienced, highly committed exporters.

Table 2-1: Review of the development stages in internationalisation models: Innovation-related internationalisation models

| Bilkey and Tesar 1977 | Cavusgil 1980 | Czinkota 1982 | Reid 1981 |
|---|---|---|---|
| Stage 1<br>Management has no interest in exporting | Stage 1<br>Domestic marketing: The firm sells only to the home market | Stage 1<br>The completely uninterested firm | Stage 1<br>Export awareness: Problem of opportunity recognition, arousal of need |
| Stage 2<br>Management is willing to fill unsolicited orders, but makes no effort to explore the feasibility of active exporting | Stage 2<br>Pre-export stage: The firm searches for information and evaluates the feasibility of undertaking exporting | Stage 2<br>The partially interested firm | Stage 2<br>Export intention: Motivation, attitude, beliefs and expectancy about export |
| Stage 3<br>Management actively explores the feasibility of exporting | Stage 3<br>Experimental involvement: The firm starts exporting on a limited basis to some psychologically close countries | Stage 3<br>The exploring firm | Stage 3<br>Export trial: Personal experience from limited exporting |
| Stage 4<br>The firm exports on an experimental basis to a country with close psychological distance | Stage 4<br>Active involvement: Exporting to more new countries-direct exporting-increase in sales volume | Stage 4<br>The experimental firm | Stage 4<br>Export evaluation: Results from engaging in exporting |
| Stage 5<br>The firm becomes an experienced exporter | Stage 5<br>Committed involvement: Management constantly makes choices in allocating limited resources between domestic and foreign markets | Stage 5<br>The experienced small exporter | Stage 5<br>Export acceptance: Adoption of exporting/rejection of exporting |
| Stage 6<br>Management explores the feasibility of exporting to countries with large psychological distance | | Stage 6<br>The experienced large exporter | |

The models consider the decision to internationalise as an innovation for the firm. The approaches share many features. The main differences are in the number of stages and the description of each stage. However, the decision to begin activities and the incentives to start exporting are interpreted differently in the models of Bilkey and Tesar (1977) and Czinkota (1982) than in the models of Cavusgil (1980) and Reid (1981), see Table 2-1. The two former presume that the firm is not interested in exporting at stage 1, and is willing to fill unsolicited orders or is partially interested at stage 2. Alternatively, in the two latter approaches, the company is described as a unit more interested and active during the early stages. The decision is affected by push or by pull forces according to the different emphasis between the models. Push mechanisms, or an external change, initiates the export decision. Pull mechanisms, or an internal change force, explains the shift from one stage to another.

Nonetheless, Biley and Tesar (1977), Reid (1981), and Czinkota (1982) limit their models to managing export activities, whereas Cavusgil (1980)'s model includes other entry modes. As evidence in the literature shows, these internationalisation 'stage' models have gained considerable support even though they do not seem to vary much. "*Except for the initiating mechanism, the differences between the models seem to reflect semantic differences rather than real differences about the nature of the internationalisation process.*" (Andersen 1993, p.212)

Cavusgil's I-model conceptualises the internationalisation process using five stages as differences in a company's orientation and management attitude to international market expansion:
Stage 1: Domestic marketing stage. The firm is only interested in the domestic market and sells only to the home market.
Stage 2: Pre-export stage. Awareness of foreign business develops. The firm searches for information and evaluates the feasibility of undertaking exporting. Unsolicited orders.

Stage 3: Experimental involvement stage. The firm starts exporting on a limited basis to some psychologically close country. The involvement of an experimental exporter is usually marginal and intermittent.
Stage 4: Active involvement stage. Exporting to more new countries, direct exporting or increase in sales volume. There is a systematic effort to increase sales through export to multiple countries.
Stage 5: Committed involvement stage. The firm depends heavily on foreign markets. Management constantly makes choices in allocating limited resources between domestic and foreign markets.

Progression from one stage to the next is determined by internal and external variables, and each stage is marked by unique, critical activities (Cavusgil 1980). This model considers in each subsequent stage as an innovation for the firm (Andersen 1993). Andersen (1993) also summarised that this model is a result of innovation adoption behaviour, where the perceptions and beliefs of managers' influence are shaped by involvement in foreign markets.

Nevertheless, the Innovation based models (I-Models) suffer from a narrow perspective. The models assume that the firm is able to manage its operations independently moving from one stage to another. The dependencies of a business actor are not considered, which may be criticised. Additionally, there is a possibility that some firms skip stages because global niches have become narrower, and transportation and communication costs have rapidly decreased (Oviatt and McDougall 1994). They also concluded that the I-model does not hold for organisations that are international from inception. Furthermore, McNaughton and Bell (2001) criticise this model by arguing that firm may not experience these stages instead of this they could born as a global company.

### *Underlying Assumptions of Stage Models*

Much of the early literature on internationalisation behaviour concludes that the process involves a series of incremental stages whereby firm gradually become involved in exporting and other forms of international business. As they do so, they commit greater resources to the foreign markets gradually and tend to target countries that are increasingly psychically distant (e.g. Bilkey and Tesar 1977; Johanson and Vahlne 1977; Cavusgil 1980; Czinkota 1982). Although the number of stages differs, a common underlying assumption of extant stage models is that firms are well established in the domestic market prior to developing international strategies.

It can be concluded that the stage models of internationalisation hold that firms internationalise through an orderly growth process in incremental stages. They thus focus attention on the number of offshore markets developed and the depth of a firm's direct exposure to these markets. They further posit that the two processes of market expansion and deepening exposure are both the products of firm's accumulating knowledge. Hence more globally expansive firms will also be more likely to have progressed to advanced stages of direct local-market representation and offshore manufacture (Chetty and Campbell-Hunt 2003). Initially, firms may have only peripheral international involvement. However, as they learn through time and gain experience, they commit progressively more resources to international activities and accept the increasingly higher risks of entering and operating in new and distant markets (Etemad and Wright 1999). The incremental knowledge and experience about international operations acquired through an orderly expansion enable firms to gain insight into specific markets abroad and develop international expertise and skills, which thereby enable firms to overcome the risks and disadvantage of foreignness. In essence, firms take advantage of an extended time horizon to maximise risk adjusted revenues, control resource requirements (including knowledge), and minimise costs and risks associated with internationalisation (Etemad and Wright 1999).

### *Evaluation of the Stage Models*

Much of the criticism, as well as efforts for further development of the models, have come from Nordic scholars (e.g. Welch and Luostarinen 1988; Johanson and Vahlne

1990, 2009; Andersen 1993; Hadjikhani 1997). Other critics argue that it does not address the managerial problems that multinational firms face during the internationalisation process (Melin 1992). McKiernan (1992) and Fina and Rugman (1996) point out that the stage models only view internationalisation as an evolutionary and learning process. Firms have to adapt slowly before engaging in more international activities. McKiernan (1992) also demonstrates that what the stage models lack is more precise description of adaptive challenges and choices that manager must deal with during the internationalisation process.

Indeed, Andersen's (1993) conceptual critique focused on the weak theoretical underpinning of many of the models and the lack of congruence between theory and practice. The criticisms of the stages models have mainly focused on the inherent problems of finding logic delimitation between stages. They mostly lack an explanation of the mechanisms that takes the firm through the stages, and the unidirectional change pattern give these models an almost deterministic character.

***Shortcomings of Stage Theories***

Even though 'stage' models took an important place in the literature, they have a number of shortcomings. First, the 'stage' approach does not explain the dynamics of progress from one stage to the next. This is due to a lack of precise stage boundaries definition. Second, the uni-directional flow is probably oversimplified. The model in its form denies divestment or strategic reorientations that accompany a withdrawal from foreign markets. These could be due to economic recession at home or abroad, the breakdown of trust/confidence in agents or licenses, economical or political instability, etc. (Ford *et al.* 1982).

Third, the sequential nature of the process essentially denies the leapfrogging of stages (e.g. McKiernan 1992; McNaughton and Bell 2001; Vahlne and Nordstrom 1993). Fourth, they have been adversely criticised for representing a process of great complexity in too simple a format (e.g. Dichtl *et al.* 1983; Turnbull 1987).

Fifth, explanations of the choices available to the organisation at any point in time are not made clear. They offer relatively little advice on how to manage the transaction for domestic companies that are undergoing internationalisation (Du 2003). Finally, the implications for management are not their central themes; especially in their early stage they tend to view internationalisation as developing along specific patterns without managers deliberately influencing this process (Du 2003).

Chetty (1999) also summaries the weaknesses of the stage models as show on Table 2-2.

Table 2-2: Weaknesses of the Stage models

| Author(s) | Weaknesses |
|---|---|
| 1. Reid (1983), Turnbull (1987), Fina and Rugman (1996) | Too deterministic and sequential |
| Melin (1992) | Excludes other strategic options |
| 2. McKiernan (1992), Oviatt and McDougall (1994), Rennie (1993) | Firms frequently skip certain stages |
| Young (1987) | Reduction in product life cycles expedites internationalisation |
| 3. Melin (1992) | Fails to explain internationalisation in experienced international firm |
| McKiernan (1992) | Does not explain the dynamics of progressing from one stage to another |
| Dichtl *et al.* (1983) | Oversimplifies a complex process |
| Forsgren (1990), Sharma (1991), Luostarinen (1991) | Ignores acquisition as an internationalisation path |
| 4. Sullivan and Bauerschmidt (1990) | Nation-specific factors such as: government programmes, industry competition and market demand promote or inhibit internationalisation |
| 5. Welch (1982) | Ignores impact of exogenous variables |
| 6. Turnbull (1987) | A firm's internationalisation is influenced by the operating environment, industry structure, and its own marketing |

| | |
|---|---|
| | strategy |
| 7. Millington and Bayliss (1990), Welch and Luostarinen (1988) | Ignores formal strategic planning and systematic appraisal, international experience and formal planning replace market experience, allowing firms to jump stages in the internationalisation process |
| 8. Nordstrom (1990), Sullivan and Bauerschmidt (1990) | Ignores the fact that psychological distance decreases as the world becomes more homogeneous |

Source: Chetty (1999, p. 123)

## *The Network Approach*

A more recent area of internationalisation research takes an alternative view and refines traditional stage-model process theory by focusing on non-hierarchical systems where firms invest to strengthen and monitor their position in international networks (Johanson and Vahlne, 2009; Johanson and Mattsson 1988, 1992). Referred to as the Network perspective, Johanson and Mattsson (1988) established a network-based internationalisation approach, which presents a change in perspective and describes why and how firms internationalise by taking into account the immediate business environment in the form of the business network and market. The model draws on the theories of social exchange and resource dependency to illustrate how firms develop network relationships organically to internationalise, and focuses on firm behaviour in the context of a network of interorganisational and interpersonal relationships (Axelsson and Easton 1992).

A key difference in network approaches to internationalisation is the character of the firm and its degree of independency and interdependency (Johanson and Mattsson 1988, 1992). Business communities follow a joint path of gradual internationalisation that resembles the internationalisation process of firms (Meyer and Skak 2002). As Johanson and Vahlne (2009, p.1415) argue *"a firm's success requires that it be* *established in one or more networks"*. This is described as the benefit of 'insidership'. Conversely, the development of operations in markets where firms have no relevant networks is depicted as the 'liability of outsidership'.

Broadly speaking, according to this approach, internationalisation depends on an organisation's set of network relationships rather than a firm specific advantage. Therefore, externalisation (rather than internalisation) occurs. The activities in the network allow the firm to form relationships, which help it to gain access to resources and markets. An assumption in the network model is that a firm requires resources controlled by other firms, which can be obtained through its network positions (Johanson and Mattsson 1988). Internationalisation decisions and activities in the Network perspective emerge as patterns of behaviour influence by various network members. Such relationships can involve customers, distributors, suppliers, competitors, private and public support agencies – the actors in a business network. Organisational boundaries therefore incorporate both business (formal) and social (informal) relationships. According to Johanson and Mattsson (1988), a firm is embedded in a network and its internationalisation process is linked to that of its networks, both domestic and foreign. They explicate the impact of business networks theoretically.

According to the network model (Johanson and Mattsson 1988), the internationalisation of the firm means that the firm establishes and develops positions in relation to counterparts in foreign networks. They argue that as the firm internationalises, the number and strength of the relationships between different parts of the business network increases. By internationalising the firm creates and maintains relationships with counterparts in other countries. In this context relationship-specific knowledge assumes prime importance and is developed through partner interaction (Johanson and Vahlne 2009). This can be achieved (1) through establishment of positions in relation to counterparts in national nets that are new to firm, i.e. international extension; (2) by developing the positions and increasing resource commitments in those nets abroad in which the firm already has positions, i.e. penetration; and (3) by increasing co-ordination between positions in different national nets, i.e. international integration. The authors see it as an evolutionary process, where relationships form the bridges to foreign markets and provide firms with the opportunity and motivation to internationalise. They also suggest that a firm's success in entering new international markets is more dependent on its relationships within current markets than on market and cultural characteristics.

The firm's degree of internationalisation informs about the extent to which the firm occupies certain positions in different national nets, and how important and integrated are those positions. The network model also has consequences for the meaning of internationalisation of the market. A high degree of internationalisation of a production net implies that there are many and strong relationships between the different national sections of the global production net. Therefore, internationalisation (in this context) means that the number and strength of the relationships between the different parts of the global production network increase (Johanson and Mattsson 1988).

| | | Degree of internationalisation of the market (the production net) | |
|---|---|---|---|
| | | Low | High |
| Degree of Internationalisation of the firm | Low | The Early Starter | The Late starter |
| | High | The Lonely International | The International Among Others |

Figure 2-2: Internationalisation and the Network Model (Johanson and Mattsson 1988)

Johanson and Mattsson (1988) assume that a firm's position in the network is a key factor to maintain and develop. Both the degree of internationalisation of the firm as well as the internationalisation of the market influences the process. They have identified four types of firms and situations as categories:

1. *The Early Starter* has limited relations with foreign firms. The same applies to other firms in the production net. The firm has very limited knowledge about international business, therefore the firm uses local agents or trading houses or other firms who have international experience in order to be able to start international operations and to learn from them. It takes advantage of the existing positions in the market occupied by other firms.

The stimulus to internationalise is often taken by other actors than the firm itself. Investing in foreign operations is limited. When the degree of internationalisation of the firm increases it may move to the next phase, the lonely international.

2. *The Lonely International* is a case where the firm is highly internationalised but the market environment is not. The firm has previous experience and knowledge, therefore it may adjust to differences in international markets and it may enter into new nets abroad and extend its operations. It may use its network in order to expand. The firm is more autonomous concerning expansion to new markets when compared to other actors in the network. It is more likely that the role of this firm will develop to that of a promoter for international expansion of its counterparts in the network.

3. *The Late Starter* uses its domestic network as a learning platform for starting international operations. Relationships in the home market may be driving forces to enter foreign markets. The firm can be pulled out by customers or suppliers and, in particular, by complementary suppliers, e.g. in big projects. Market investments in the domestic market may function as driving forces and can be seen as assets that can be utilised when a firm internationalises.

4. *The International Among Others*. At this level the firm and its environment (or networks of business relationships) are highly internationalised. International extension or penetration means only a gradual change in the position of the company in relation to its existing level of internationalisation. The firm may use its international net in order to connect to other nets.

Coordination is essential since a firm has to take into consideration shifts in production costs across the markets in which it operates and the impact of competitors' moves. In terms of manufacturing activities, a firm may use diverse suppliers across different countries/regions, instead of producing these themselves (i.e. outsourcing). The possibility to coordinate operations due to changes in the business environment is inherent in The International Among Others phase. When a firm has existing international business contacts it can utilise these links to familiarise itself with the changes and how to take advantage of the changes (Johanson and Mattsson 1988).

The processes that occur within each of these categories represent one key contribution within this model. It is not a stage model in the sense that a firm should shift to another category.

Hadley and Wilson (2003) operationalised the network model of internationalisation by Johanson and Mattsson (1988) and claim that internationalisation knowledge is significantly related to the firm's market diversity. A firm's exposure to culturally dissimilar markets facilitates its ability to conduct international operations. They suggest that a firm's inadequate ability to accumulate important procedural knowledge may be a preventing factor for pursuing international strategies. However, the diversity of the markets in which the firm operates seems to be more important than the number of the markets (Hadley and Wilson 2003). In addition, Hadley and Wilson (2003) question whether a focus on other sources of internationalisation knowledge, such as internationalisation knowledge and foreign business knowledge, could be more useful to the internationalising firm than foreign institutional knowledge.

Fletcher and Barrett (2001) build on Johanson and Mattsson's (1988) work and examine embeddedness and the evolution of global networks using the network view. They point out the types of internationalisation that takes place using business networks: international extension, international penetration and international integration. Their case showed the importance of the managerial atmosphere and the impact of the environment in which the networks of relationships were embedded. According to them, the environment was influential in the internationalisation process of the case firms.

The shortcomings of Johanson and Mattsson's model, identified by Chetty and Blankenburg Holm (2000), are related to the differentiation criteria of firms and categories and their overlap. They criticise the model for not having the importance of decision-maker and firm characteristics integrated in it. They discuss the utilisation of network relationships in problem solving and the external uncontrollable factors, which are excluded in the model. Moreover, Chetty and Blankenburg Holm (2000) consider it unfavourable that the position shifting of a firm from one category to another, the forming relationships through interactions in formal association and respective relationships, as well as the other dimensions of the business network such as customers and the government that drive firms to internationalise, are not included in the model.

Nevertheless, in the work of Johansson and Vahlne (1990), the model of Johansson and Vahlne (1977) was combined with the network model. They suggest that the company should not be analysed as an independent actor, but as part of a network. This focuses the model more on external factors, that is, the connection with other firms. Compared with the unilateral process suggested by the Stage models, however the Network perspective introduces a more multilateral element to internationalisation (Johansson and Vahlne 1992). Overall, the network perspective goes beyond the models of incremental internationalisation by suggesting that a firm's strategy emerges as a pattern of behaviour influenced by a variety of network relationships (Benito and Welch 1994).

### *Born Globals*

Shrader *et al.* (2000) have recently pointed out that the Organisation for Economic Co-operation and Development predicts that the internationalisation of business will accelerate in the 21$^{st}$ century (OECD 1997). The firms are become accelerated in the process of internationalisation.

The McKinsey study of Australian exporters coined the concept ‘Born Globals’ (Rennie 1993), and this term has been adopted by numerous studies of the phenomenon. Related terms that have been used include: ‘Born Globals’ (Knight and Cavusgil 1996; Madsen and Servais 1997; Andersson and Wictor 2003), ‘International new ventures’ (McDougall *et al.* 1994; Oviatt and McDougall 1994), ‘Global start-ups’ (Oviatt and McDougall 1995), ‘Infant multinational’ (Lindqvist 1997) and ‘Instant exporters’ (McAuley 1999).

The emergence of new stream of literature on Born Global firms in the early 1990s presents a significant challenge to traditional views on the internationalisation of the firm (Bell *et al.* 2001). They have been shown that firms can be global shortly after their inception (e.g. Knight and Cavusgil 1996; Madsen and Servais 1997; Oviatt and McDougall 1994; Rennie 1993). The firms in these studies did not slowly build their way into the international trade, which appears to contradict earlier studied on firm internationalisation (e.g. Johansson and Vahlne 1977, 1990). The main difference concerns the ‘leap-frogging’ of small and high technology firms with a rapid, non-incremental internationalisation process. Traditional stage models are claimed to be invalid for these ‘leap-frogging’ small companies (Knight and Cavusgil 1996) and the network approach has been found to be more appropriate (Andersson and Wictor 2003; Coviello and McAuley 1999).

Several studies (e.g. Andersson *et al.* 2006; Andersson and Wictor 2003; McDougall *et al.* 1994; Moen 2002; Oviatt and McDougall 1997; Thai and Chong 2008) also show the existence of firms that do not increase their degree of internationalisation by following the sequential model proposed by the earlier theories. While traditional perspectives assume that firms increase their degree of internationalisation long after they have been established, it can be observed that some firms reach the stage of active exporters in a very short period of time, without passing through the previous stages.

McDougall *et al.* (1994) showed that monopolistic advantage theory, product cycle theory, internationalisation stage theory, oligopolistic reaction theory and internalisation theory could not explain the Born Global phenomenon. They propose that entrepreneurship theory and the resource-based view of the firm better explain the phenomenon. Moreover, Knight and Cavusgil (1996) claim that traditional internationalisation models, such as the Uppsala model and different innovation-related models, are not useful for explaining the international development of a Born Global firm. Furthermore, Autio *et al.* (2000) find that firms which do not internationalise in their early years develop organisational routines that reduce the chances of spotting and realise foreign market opportunities at a later stage.

Nevertheless, interpreting the studies of Born Globals, Madsen and Servais (1997) find that basic assumptions of the Uppsala model (Johanson and Vahlne 1977, 1990), including the pre-export behaviour, have some merit when trying to understand the internationalisation pattern of Born Globals. Based on the reasoning of the original (dynamic) state and change model one may explain the manifest internationalisation process of some Born Globals as follows: since the founder of the Born Global has a high market knowledge built up through years of business activities in the industry, then the Born Global firm can easily take commitment decisions concerning international markets. Furthermore, market commitment may be relatively low because the country specificity of market knowledge is relatively low and international sales and marketing channels are already in place (Madsen and Servais 1997). However, the manifestations of the stage model (internationalisation like "rings in the water" with regard to product, geographical markets and entry mode) is not an adequate framework for modelling the manifest routes to internationalisation of Born Globals (ibid).

While the underlying notion of the phenomenon of Born Globals seems to be highly consistent and widely accepted in the literature, there are discrepancies among the different studies, especially in relation to the operationalisation of the definition. A major area of controversy is found in terms of the specific time lapse between the moment when the firm obtains its first international sales and the moment when it becomes established on the international market (Pla-Barber and Escriba-Esteve 2006).

A weakness in the literature on Born Globals is that several different criteria have been used to define the concept in empirical terms (Rialp *et al.* 2005). McKinsey & Co. (Rennie 1993) found the following characteristics of Australian Born Globals: Management views the world as its marketplace from the outset; unlike traditional companies, they do not see foreign markets simply as adjuncts to the domestic market. Born Globals begin exporting one or several products within two years of their establishment and tend to export at least a quarter of total sales. Oviatt and McDougall (1994, p.49) define this type of firm as "*a business organisation that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries*". These firms are global from inception or internationalise within 2 years of establishment (Oviatt and McDougall 1994). Whereas, Knight and Cavusgil (1996, p.12) conceptualise Born Global firms as being "*companies that operate in international markets from the earliest days of their establishment*". Besides, they can be defined as companies which export more than 25% of total sales within three years of start-up (Knight and Cavusgil 1996).

More recently, the definition used in the Born Global research in Denmark is: A Born Global is a firm with an export percentage (compared to the total sale) of 25% or more, which have started exporting within three years after the firm foundation (Madsen *et al.* 2000). While, Andersson and Wictor's (2003) definition is "*A Born Global is a company that has achieved a foreign sales volume of at least 25% within 3 years of its inception and that seeks to derive significant competitive advantage from the use of resources and the sales of outputs in multiple countries.*" (Andersson and Wictor 2003, p.254).

Oviatt and McDougall (1994) also group Born Globals, or International New Ventures as they call them, into four different categories, dependent on the number of value chain activities performed combined with the number of countries involved;

Export/import Start-up, Multinational Trader, Geographically Focused Start-up, and Global Start-up.

Figure 2-3: Types of International New Ventures

| Coordination of Value Chain Activities | Few | Many |
|---|---|---|
| | New International Market Makers | |
| Few Activities Coordinated Across Countries (Primarily Logistics) | Export/Import Start-up<br>i | Multinational Trader<br>ii |
| Many Activities Coordinated Across Countries | iii<br>Geographically Focused Start-up | iv<br>Global Start-up |
| | Number of Countries Involved | |

Source: Oviatt and McDougall (1994, p.59)

A typical Born Global firm is characterised by small size and a reliance on technology in the development of a relatively unique product or innovative process; in addition, such a firm often serves a niche market (Knight and Cavusgil 1996). The following factors have been identified as being characteristic of Born Global firms: (1) one or more strong entrepreneurs with extensive international experience; and (2) a strong product (Bloodgood *et al.* 1996; McDougall *et al.* 2003; Oviatt and McDougall 1994, 1997). Rasmussen and Madsen (2002) add that a Born Global firm is usually very flexible, proactive on a global scale, and active in using networks and relationships to enter new markets.

The more recent global business research has insisted on a strict interpretation of the concept 'global' and also taken up the strategic perspectives, whereby Born Globals: (1) start international operations even before or simultaneously with domestic ones, (2) base their visions and missions mainly on global markets and customers from the inception, (3) plan their products, structures, systems and finances on a global basis, (4) plan to become global market leaders as part of their vision, (5) use different product, operation and market strategies than firms have traditionally done, (6) follow different global marketing strategies, and (7) grow exceptionally fast on global markets (Luostarinen and Gabrielsson 2004).

Madsen and Servais (1997) have created a research model to highlight the critical factors in the propensity for, and development of, Born Globals. These critical factors were identified as being: (1) the founder(s); (2) the organisation itself; and (3) the environment in which it acts. Furthermore, Andersson and Wictor (2003) find that important concepts in the development of Born Globals included: (1) the industry involved; (2) globalisation; (3) network; and (4) entrepreneurs. Of these, entrepreneurs and personal networks were identified as the most important factors.

One of the most distinctive features of Born Global firms is that they tend to be managed by entrepreneurial visionaries who, from the inception of the firm, view the world as a single, borderless marketplace (Andersson and Wictor 2003; Bell *et al.* 2001; Knight and Cavusgil 1996). Born Global firms are formed by active entrepreneurs, often due to a significant breakthrough in process or technology, and their offerings commonly involve substantial value adding. The international entrepreneurial orientation of the founders is suggested as one of the prime factors that determines the speed of international involvement (Knight and Cavusgil 1996; Oviatt and McDougall 1997). A common characteristic is that management adopts a global focus from the outset and embarks on rapid and dedicated internationalisation. Their accelerated pace to international markets is driven by a desire to gain first mover advantage and to lock-in new customers. A strong motivating factor is the need to swiftly exploit proprietary knowledge as the main source of competitive advantage couple with the difficulty of protecting intellectual capital and patents, contribute to narrow windows of commercial opportunity (Bell *et al.* 2001).

The extension of the Born Globals phenomenon is positively associated with the degree of internationalisation in the market. In comparison with other export firms, Born Globals are more specialised and niche-oriented, with products that are either custom-made or standardised to the market (Knight and Cavusgil 1996; Madsen and Servais 1997). The geographical location of Born Global's activities is determined by the principals' previous experience and economic factors such as capability and customer-related factors.

The growth of a Born Global firm is positively associated with innovative skills, including the ability to access effective R&D as well as distribution channels, which is often conducted in partnerships, with close collaboration in international relationships involving frequent, intense, and integrated efforts across nations (Knight and Cavusgil 1996; Madsen and Servais 1997). In comparison with other exporting firms, Born Globals are more reliant on supplementary competencies sourced from other firms, while their distribution channels are more reliant on hybrid structures such as network partners, joint ventures (Madsen and Servais 1997; Crick and Jones 2000).

An area of key factors as drivers of the acceleration of the internationalisation process open to a certain degree of empirical controversy and debate among researchers is related to the considerable variety and disparity of results usually found in terms of those factors that mainly characterise the acceleration of the process of internationalisation. As most of the empirical research seems to be highly context-specific, almost every author in this field has aimed at elaborating their own list of such key factors (Rialp *et al.* 2005). For example, Moen (2002) considers the differences related to the characteristics and the competences of the firms, their strategy and the environment in which they operate. Knight and Cavusgil (1996) present several recent trends which have given rise to the emergence of Born Globals including; the increasing role of niche markets, advances in process and communication technology, the internationalisation of knowledge, technology, tools, facilitating institutions, and the trend towards global network. In addition, Madsen and Servais (1997) discuss the factors giving rise to Born Globals and highlight the role of environmental factors (such as the development of information and production technology, the reduction of trade barriers), strategic factors (increased importance of niche marketing) and renewed managerial orientation (because of the increasing number of students with international experience). Moreover, relationships with other business factors have been pointed out as a crucial ingredient of every organisation's business life (Andersson *et al.* 2002).

Even though there is not a sufficient consensus with regard to the factors explaining the speed of the internationalisation process, some issues that have been pointed out as the potentially main drivers of an accelerated internationalisation process can be classified as: (1) internal factors (e.g. the management team's attitude to internationalisation); (2) strategic factors (e.g. possession of competitive); (3) external factors (e.g. networks) (Rialp *et al.* 2005).

In general, the literature has initially associated the Born Global phenomenon with entrepreneurial knowledge-intensive firms or high-technology-based sectors, with inquiry into computer software, service or technology-based firms prevalent (Oviatt and McDougall 1994; Knight and Cavusgil 1996; Madsen and Servais 1997). The knowledge-based competitive advantage that such firms often possess has been seen as a key factor in enabling them to take a short cut on their path to internationalisation. However, knowledge-intensive sectors are not the only sectors in which this phenomenon prevails. In later research, this phenomenon has also been found in a wider range of industries, regardless of their technological intensity. For example, McAuley (1999) found Born Globals in the arts and crafts sector in Scotland, Andersson and Wictor (2003) have identified born globals in the rubber-production sector, Andersson *et al.* (2006) found the evidence of Born Globals in Malaysian furniture firms, and Thai and Chong (2008) explained Born Globals phenomenon of the Vietnamese firms in non-high-technology industry.

Moreover, the influence of the nature of the sector is likely to vary according to national characteristics (Madsen and Servais 1997). Madsen and Servais (1997) believe to be related to the size of the home market. Born Global firms originating in countries with large home markets are mostly found in high-technology-based sectors. Born Globals in smaller countries are also frequently found in other sectors.

Firms in nations with small domestic markets have a higher propensity to become Born Globals than firms in nations with large domestic markets. Therefore, Born Globals from small nations may rely on many different products, whereas Born Globals from large nations may be limited to high-technology industries (Madsen and Servais 1997). In addition, it appears that nations with a large number of immigrants have a higher proportion of Born Globals (Madsen and Servais 1997; McDougall and Oviatt 1996).

In their comprehensive literature review, Rialp *et al.* (2005) found ten critical success factors for Born Globals. These can be summarised as follows:

1. a managerial global vision from inception
2. a high degree of previous international experience among managers
3. management commitment
4. extensive use of personal and business networks (networking)
5. market knowledge and market commitment
6. unique intangible assets (based on knowledge management)
7. a high level of value creation through product differentiation, leading-edge technology products, technological innovativeness (usually associated with a greater use of IT), and quality leadership
8. a niche-focused, pro-active international strategy in geographically spread markets from the very beginning
9. narrowly defined customer groups with strong customer orientation and close customer relationship
10. flexibility in adapting to rapidly changing external conditions and circumstances.

The above section is concentrated on the review of extant internationalisation process theories in general. We already see that there are many internationalisation theories try to explain the internationalisation process of firm. The following section is reviewed literatures with particular reference to the internationalisation process of SMEs.

## 2.2 Internationalisation Process of SMEs

Original conceptualisation and empirical research on firm internationalisation has been heavily focused on large multinational enterprises and these models have been used as the lens for understanding firm internationalisation in other empirical settings (Ibeh 2000). However, attention in large firms as the traditional unit of analysis dominates the internationalisation literature despite the fact that small to medium-sized firms are also increasingly internationalised (Coviello and McAuley 1999). SMEs which involve in international activities have increased in number and they are increasingly active in international markets (UNCTAD 1993; OECD 1997, 2000; Reynolds 1997).

Furthermore, the emphasis on larger firms is of additional concern given the argument that smaller firms differ from larger firms in terms of their managerial style, independence, ownership, and scale/scope of operations (O'Farrel *et al.* 1988). Smaller firms have also been found to have different managerial processes (Reid 1981; Smith *et al.* 1988), with structures that are less rigid, sophisticated, and complex than those in larger firms (Julien 1993; Carrier 1994; Carson *et al.* 1995).

O'Gorman and McTiernan (2000) point out the difference in the opportunity of SMEs in the internationalisation process when compared to large multinational corporations. They identify that small size and resource deficiencies are barriers to internationalisation in SMEs and argue that the resource deficiencies that characterise SMEs impact the internationalisation choices made by management, affecting the what, where, and how for their foreign value-added activities. Furthermore, the resource and size limitation of SMEs is presented in Chetty and Campbell-Hunt (2003), where it influenced the nature of the path the firms followed in their internationalisation process.

A small and medium-sized firm has limitations that affect the resources of the firm and its behaviour. Although size creates internal constraints to international growth, it is not necessarily a barrier to internationalisation (Calof 1993, 1994). Small and medium-sized firms are capable of entering the same markets as are the large firms. Size only limits the number of markets served. SMEs have also been found to find unique ways to overcome their smallness (Bonaccorsi 1992; Gomes-Casseres 1997).

If larger firms seem to internationalise rationally and systematically, following a certain path, this is not always the case with smaller firms. SMEs should internationalise by behaving differently than the larger enterprises (Etemad and Wright 2003). Coviello and McAuley (1999) summarise that it might be expected that the internationalisation of SMEs would be different from that of larger firms due to firm characteristics or behaviours used to overcome size-related challenges. Since the resource and capability structure of SMEs differs from that found in larger companies, it is misleading to expect them to be able to internationalise in similar manner (Coviello and Munro 1997). It becomes clear that there is a considerable difference in the manner in which the SMEs internationalise in comparison to larger firms.

From the literature review in the previous section, there are two different main streams of theories regarding the internationalisation process; the economic approach and the behavioural approach. However, this research does not attempt to explain internationalisation process of SMEs by using economic perspective. The behavioural approach seems the most directly related to the interest of this research since the specific emphasis of this research is on SMEs internationalisation process behaviour. The focus of this research is on the firm's internationalisation process behaviour and the influence of decision makers' perception of risk rather than examines statistical economic consideration of the firm's cross border activities. Moreover, this research does not attempt to use economic approach in order to investigate internationalisation process of SMEs due to the following additional reasons.

The fundamental assumption of economic approach is that firms are quasi rational in their choice of investments. Firms choose their foreign market entry modes by evaluating economic costs of different transactions and selecting the mode that minimises overall costs. The economic approach is basically static. A firm's foreign expansion is examined as a series of static choices where individual investment decisions are treated as discrete phenomena, dictated by efficiency considerations and relative cost and benefits. Once the cost and benefits of specific investment opportunities are considered in light of the economic and competitive constraints operating in a market, there is little room for managerial discretion. The fact that various decision makers can make different strategic decisions in the same situation is therefore not acknowledged in economic approach.

The economic view is useful in establishing production facilities during the later stages of a firm's internationalisation (Andersen 1993; Vahlne and Nordstrom 1993), but it ignores the process aspects of internationalisation. The economic approach overlooks the possibility of individuals making strategic choice and is less appropriate for understanding radical strategic change where entrepreneurs and top managers play an important role (Reid 1981, 1983; Turnbull 1987; Andersson 2000), like they are in the internationalisation process of SMEs.

Moreover, the economic approach has focused on the internationalisation of MNEs and is the dominant approach in MNEs research. The definition of MNE that is widely accepted in academic and business circles, by data collecting agencies such as the Organization for Economic Cooperation and Development (OEDC) and the United Nation Center for Transnational Corporations (UNCTC) and by most national governments is *"an enterprise that engages in foreign direct investment (FDI) and owns or controls value-adding activities in more than one country"* (Dunning 1993, p.3). This indicates that although SMEs can become MNEs, but not all SMEs can be MNEs because when SMEs internationalise many of them do not progress further to a certain stage of FDI. Attempts to apply theories developed for or based on large firms or the so-called multinational enterprises (MNEs) may lead to relatively awkward results when applied to smaller businesses as ideas developed for large firms do not necessarily work in a small business setting (Ruzzier *et al.* 2006).

As a result, this research has focused on behavioural approach of internationalisation as a main concern in order to answer the research questions and refine our understanding of internationalisation process theory through the context of Thai SMEs, economic approach is excluded.

### 2.2.1 Stage Models and SMEs

Although there are several models of the internationalisation process in the literature, many firms have internationalised in incremental stages and others continue to do so (Petersen and Pedersen 1997). SMEs' behaviour is mostly described using process/stage theory and, although its validity is continually being questioned, it is currently perceived to be the most dominant paradigm of internationalisation (Fillis 2004).

An influential theoretical starting point to explain firms' international development has been different types of stage and process models (e.g. Bilkey and Tesar 1977; Cavusgil 1980; Johanson and Wiedersheim-Paul 1975; Johanson and Vahlne 1977, 1990). A basic assumption in these models is that firms internationalise in an incremental, stepwise, and gradual process for gaining increased experimental knowledge and reduced risk. Firms begin with their home markets and then gradually internationalise in a stepwise manner. This means that organisation slowly builds up its knowledge regarding foreign cultures, languages, political systems, level of industrial development and so on (Johanson and Wiedersheim-Paul 1975).

In spite of the criticism (e.g. Turnbull 1987; Andersen 1993; Bell 1995; Andersson 2000), the Uppsala internationalisation model is still considered as one of the most influential models in this field (e.g. Bjorkman and Forsgren 2000; Cuervo-Cazurra and Ramos 2002), and great deal of empirical work has corroborated the validity of the model in different countries (e.g. Bilkey and Tesar 1977; Cavusgil 1980).

The interest paid by the U-model to the 'establishment chain' makes this approach particularly adequate for explaining the export behaviour of SMEs, in the initial stages of their internationalisation process. This is supported (for example) by Forsgren (1989) and Johanson and Vahlne (1990), thus, stressing the relevance of gradual and incremental experience accumulation for explaining the export behaviour of SMEs.

Stage models argue that international activity will create learning and more knowledge on internationalisation. To be able to expand abroad it consequently seems important that knowledge about internationalisation becomes an important part of the firm's strategy (Eriksson *et al.* 2000a).

Nevertheless, while some small firm findings support the view that firms follow an incremental process of internationalisation in terms of increasing knowledge, commitment, and investment, others do not (Coviello and Munro 1997; Coviello and McAuley 1999) and, as we shall see later, I only found limited support among my Thai SMEs.

Other behaviourist models, Innovation-related models (I-models) also suggest that SMEs' internationalisation process is incremental, based on different stages which determine changes in the attitudinal and behavioural commitment of managers which, at their turn, are reflected in the firms increasing international orientation (Bilkey and Tesar 1977; Cavusgil 1980; Reid 1981; Czinkota 1982).

There has been research on the applicability of the I-models to SMEs, though it is limited. A few scholars verified the applicability of the I-models for SMEs. Bell (1995) concludes that the I-models which proposed by Bilkey and Tesar (1977), Cavusgil (1980) and Czinkota (1982) held true in term of firms' behaviour for his sample of small computer software companies in Finland, Ireland and Norway. Nevertheless, there is very limited support for the view that firms internationalise in small incremental steps and the findings suggest that the process is much less deterministic than these models imply (Bell 1995).

Gankema *et al.* (2000) using a sample of SMEs from six European countries show that in the majority of cases Cavusgil's (1980) stage theory holds for existing SMEs and the models are particularly useful for SMEs a successful pattern to follow through the export process. In general, their study clearly reveals a growing degree of international involvement by the SMEs over time.

However, Gankema *et al.* (2000) also find some evidence of SME's leapfrogging stages and/or stopping internationalisation prior to full commitment. This leapfrogging cannot be said to follow a pattern of gradual acquisition; nor does it fit a theory that considers each next stage as an innovation. Other SMEs stop the process of internationalisation before they have reached the committed involvement stage. These concerns echo the objectives of Melin (1992). Nevertheless, the main results of their research suggest that this stage theory holds for existing European SMEs when small penalties are assigned for stagnation.

Apart from Uppsala model, Innovation related model maintains that management ability, experience and knowledge in a small firm could affect internationalisation of the firm. Reuber and Fischer (1997) claim that the management team's knowledge and experience is very important in the export development process of a small firm. Based on a study of small Canadian software firms, they concluded that the team's level of international knowledge and experience has a positive influence on the firm's degree of internationalisation and that firms with an experienced management team can essentially skip stages with positive effects on subsequent export performance.

Although internationalisation may follow a set of sequences, the organisational requirements may not develop in the same way. Market selection or choice is dependent on factors such as market attractiveness in term of potential for growth and level of competition, psychic distance and accessibility to the market (Fillis 2004). Indeed, it might be argued that in these models, firms are sequentially internationalise their operations but many of the small and medium sized firms might skip certain stages and adopt several forms of foreign market entry at the same time (Turnbull 1987). SMEs may have other process characteristics due to their resource and capability limitations. Therefore, they may take other steps than the gradual development steps offered by the stage models.

### 2.2.2 Network Perspective and SMEs

The classical internationalisation theories are not pragmatic since they miss contemporary elements of business, such as relationships, which are embedded in business networks. The lack of interconnectedness-dependency (Ritter 1999, 2000) is criticised in stage and incremental models, as it seems to function as one key element affecting SME internationalisation. Certain studies highlight the potential role of networks in small firm internationalisation (e.g. Lindqvist 1988; Bell 1995). Lindqvist (1988) argue that close relationships with customers and partners influence the pace and pattern of international market growth and choice of entry mode for small firms. Likewise, Bell (1995) states that interfirm relationships (with clients, suppliers, etc) appear to have an impact on both market selection and the mode of entry form for small firms. Findings from my Thai companies also broadly supported the importance of learning relationships.

The internationalisation strategy and outcomes in SMEs are greatly influenced by their partners, suppliers, customers and the business environment. Therefore, contemporary SME internationalisation patterns are strongly connected to those of their partners. Recently, research has found that alliances with partners in foreign markets can be an effective strategy to overcome the deficiencies small and medium-sized enterprises (SMEs) face in resources and capabilities when expanding their activities abroad (Lu and Beamish 2001). Business networks provide an appropriate concept for studying a firm's success in internationalisation in a real-world context. By forming business networks SMEs expedite their internationalisation efforts and improve their success potential (Coviello and McAuley 1999; Ghauri *et al.* 2003).

Networks are strongly relied upon by SMEs at the beginning of a firm's internationalisation, especially to select and expand into foreign markets as they facilitate the acquisition of experiential knowledge about these markets (Lindqvist

1997). Sharma and Blomstermo (2003) suggest that firm's ties provide channels for sharing knowledge as well as the motivation to do so.

Small firms are likely to grow, at least at the beginning of their existence, through the establishment of links with the external environment (Jones 2001). The "external links" are defined by Jones (2001) as points of contact with the external environment; they form the basis for the establishment of business relationships and networks, hence allowing such behavioural approaches to internationalisation. In contrast with large firms, which often have the resources to easily enter foreign networks, the establishments of network relationships gains even more importance for SMEs. Bell (1995) found that export activities were initiated due to the contact with suppliers while Coviello and Munro (1997) argue that internationalisation activity appears to be largely driven by existing network relationships, often presenting major patterns guiding foreign market selection and providing the mechanism for market entry.

In discussing the SMEs internationalisation process, Coviello and Munro (1997) present results which indicate that SMEs show a pattern of externalising their activities during the internationalisation process, often relying on network relationships for market selection as well as mode of entry. They also suggest that a rapid SMEs internationalisation process can be driven by existing network relationships, particularly by international networks and major partners, which not only drive the process but also influence the pattern of market investment. Network relationships facilitate the international growth of the firm. But these relationships not only enhance activities but also constrained other opportunities, which leads to fears of total dependence (ibid). Finally, Coviello and Munro (1997) conclude that understanding of the internationalisation process for small firms can be enhanced by integrating the model of incremental internationalisation with the network perspective.

In the same way, Madsen and Servais (1997) argue that the internationalisation process partly depends on the network in which a firm is embedded and partly on the industry's respective degree of internationalisation. The process is situation specific and may take place more rapidly than presented in the incremental internationalisation theory.

Nummela (2001) draws the conclusion that a reciprocal relationship seems to exist between the internationalisation of the firm and its network, pointing to a firm's dependency on the environment in which it operates. Nummela (2001) presented a synthesis of a process perspective and a network perspective on contemporary SME internationalisation. She sets up the following assumptions:

Process perspective:

- Internationalisation is a gradually developing process.
- It is possible to identify a sequence of events in the internationalisation of a company which most of the companies follow.
- Experience and learning are important elements in the process.

Network perspective:

- A company and its internationalisation are dependent on the environment in which it operates.
- The network offers various links and it can be exploited in numerous ways.
- Effective usage of networks facilitates SME internationalisation.

## 2.2.3 Born Global and SMEs

Small firms seem to get into the international scene at a much earlier age than before and they are also more actively pursuing strategies that involve international activities (e.g. McDougall *et al.* 1994; McDougall and Oviatt 2000; Reynolds 1997).

In one of the first studies on Born Globals, a McKinsey study of Australian exporters highlighted the rise of numerous small companies that have competed successfully, virtually from their inception, against large, established players in global markets

(Rennie 1993). These firms did not work their way slowly into the international trade, which appears to contradict earlier studies of firm internationalisation (Johansson and Vahlne 1977, 1990).

Furthermore, The United Nation surveyed small trans-national corporations around the world and found falling barriers to small firm internationalisation and increasing number of small firms that bypassed the traditional, incremental, pattern of internationalisation (UNCTAD 1993). The above-mentioned evidence was named as "accelerated internationalisation", which refers to the phenomenon of firms engaging in international business activities earlier in their organisational life cycles than they have historically. This indicates that a noticeable number of ventures began to sell outputs across national borders earlier in their existence than was typical of similar ventures in prior decades and earlier than was described in the most influential internationalisation theories (Johanson and Vahlne 1977, 1990).

Additionally, a more recent study of small and medium sized firms in 26 developed and developing countries makes the case that an era of accelerated firm internationalisation has began (OECD 1997). A number of studies emerged to critically assess the adequacy of the internationalisation stage models in explaining the manner in which born global firms internationalise. These studies found that many small firms follow a path of accelerated internationalisation rather than the incremental, deterministic stages posited by the incremental stage models (e.g. Andersson *et al.* 2006; Bell *et al.* 2003; Knight and Cavusgil 1996; Moen and Servais 2002; Thai and Chong 2008).

According to Knight and Cavusgil (1996), a number of recent trends have led to the emergence of born global firms. These include:

- the increasing role of niche markets and greater demand for specialised or customised product;
- significant advances in process technologies, which enable firms to engage in profitable small-scale production of complex components;

- advances in communications technology, such as fax, e-mail and the world wide web (www), which means that small firms can manage international operations more efficiently and have greater access to information;
- the inherent advantage of small firms in terms of quicker response time, flexibility and adaptability;
- the internationalisation of knowledge, tools, technology and facilitating institutions, which provide opportunities for technology transfer and access to funding; and
- trends towards global networks, which are facilitating the development of mutually beneficial relationships with international partners.

Hollensen (2004) also support these trends by presenting several factors giving rise to the emergence of Born Globals including increasing role of niche markets, advanced in process/technology production, flexibility of SMEs/Born Globals, global networks, and advanced and speed in information technology.

There is little doubt that these global trends will increasingly exert a strong influence on the internationalisation of smaller firms generally, and not just on the behaviour of born global firms which often have an international vision from inception or shortly thereafter (Oviatt and McDougall 1994, 1997). The Born Global phenomenon is probably more common today, when internationalisation may be less complicated and risky because of lower trade barriers and cheaper and faster transportation and communication. There is abundant empirical evidence showing that not all firms internationalise gradually in a stepwise manner, some firms internationalise quickly and right from their inception (Andersson and Wictor 2003; Andersson *et al.* 2004, 2006; Thai and Chong 2008). Nonetheless, as Johanson and Vahlne (2009) argue, most so-called born globals are really ‘born regionals’ with international activities that do not really span the globe in any significant fashion.

In addition, a study of SMEs internationalisation by Bell *et al.* (2001) identify ‘born-again’ global firms that have internationalised rapidly after a long period during which they focused on the domestic market, typically within 2-5 years of their first international involvement. Sudden internationalisation occurs due to a combination of critical incidents such as a change in ownership and/or management, acquisition, and client followership. Particular episodes can lead to an epoch of rapid and dedicated internationalisation (Bell *et al.* 2001). In this context, the importance of top management's international orientation, commitment and experience is pivotal and changes in ownership or management are often the catalyst for a shift in strategic direction leading to internationalisation (ibid).

Furthermore, Bell *et al.* (2003) propose an integrative model of small firm internationalisation and identify a number of stereotypical internationalisation pathways that SMEs may follow. In the proposed model, SMEs can be classified as 'traditional' firms are those that follow an incremental approach to internationalisation, 'born global', and 'born-again global'. Nevertheless, the knowledge base can be regarded as a core competence and a source of competitive advantage that influences both the pattern and pace of internationalisation (Autio *et al.* 2000; Ericksson *et al.* 2000a). Thus, firms with highly sophisticated knowledge bases are likely to internationalise much more rapidly than are those with more basic capabilities (Bell *et al.* 2003).

## 2.2.4 SMEs International Activities

Internationalisation has traditionally been regarded as an outward flow and most internationalisation models have not dealt explicitly with how earlier inward activities, and thereby gained knowledge, can influence later outward activities (Hollensen 2004). Hollensen (2004) suggests that a natural way of internationalising would be first to get involved in inward activities and thereafter in outward activities. Relationships and knowledge gathered from inward activities could thus be used when the firm engages in outward activities (Welch *et al.* 2001). Moreover, Welch and Loustarinen (1993) claim that inward internationalisation may precede and influence outward internationalisation for example international market entry and marketing activities.

Consequently, the internationalisation process of SMEs may include both inward and outward links and these are likely to reflect the firms' current areas of competence and expertise, and/or its current level of needs and perceived inadequacies (Hollensen 2004).

Table 2-3: SMEs Inward-outward cross-border business activities

| | Inward | Outward |
|---|---|---|
| R&D | - Contract-in R&D<br><br>- License-in technology from overseas-based firms | - License-out technology to oversea-based firm<br><br>- Contract-out R&D to overseas-based firm |
| Production | - Technical service or consultancy performed in the home country for overseas-based clients<br><br>- Contract-in manufacture for oversea-based firms | - Contract-out manufacture to overseas-based firm<br><br>- Technical service or consultancy performed overseas<br><br>- Minority investment in overseas production<br><br>- Majority investment in overseas production |
| Marketing and distribution | - Import from overseas-based supplier<br><br>- Import with distribution in the home country | - Exporting through home country-based intermediary<br><br>- Exporting through foreign-based agent/distributor |

| | | |
|---|---|---|
| | - Management or marketing service or consultancy performed in the home country for overseas-based clients | - Exporting through overseas-based sales representative or branch<br><br>- Management or marketing services or consultancy performed overseas |

Source: Jones (2001), p.197

Although internationalisation is a multidimensional phenomenon, this study focuses on SMEs' outward internationalisation, due to the following reasons. First, more than inward operations, outward operations can in the long term increase the competitive advantage of a firm. Second, at the firm level outward internationalisation benefits may also be evident in the form of product and process innovation, better utilisation of capacity, skill development and a generally improved business performance. Third, at the country level outward internationalisation induces several favourable outcomes for productivity performance, labor market employment levels, foreign exchange accumulation and related externalities such as industrial welfare and societal prosperity. Finally, the intensifying competition, integration and liberalisation seen in international markets have forced firms to begin considering outward international activities as a key factor in their growth, profitability and even survival.

## 2.2.5 Summary of Internationalisation Process of SMEs

There are various conceptualisations of internationalisation process are proposed to explain SMEs and their international activities. The stage models have had considerable influence on SME internationalisation research. The stage models suggest that internationalisation is found to be a gradual, incremental process. Firms become incrementally international long after they have been established domestically (Johanson and Wiedersheim-Paul 1975; Johanson and Vahlne 1977, 1990; Biley and Tesar 1977; Cavusgil 1980; Reid 1981; Czinkota 1982).

The stage models posit that firms gradually internationalise through an incremental process, wherein firms gravitate towards psychologically close markets and increase commitment to international markets in gradual, stepwise manner through a series of evolutionary stages whereby firms gradually become involved in exporting and other forms of international business. As they do so, they commit greater resources to the foreign markets and tend to target countries that are increasingly psychically distant. Although the number of stages differs, a common underlying assumption of extant stage models is that firms are well established in the domestic market before venturing abroad (Johanson and Wiedersheim-Paul 1975; Johanson and Vahlne 1977, 1990; Biley and Tesar 1977; Cavusgil 1980; Reid 1981; Czinkota 1982).

Despite continued enthusiasm and support among many researchers for this notion of incremental internationalisation, criticisms of this view were being made (e.g. Bell 1995; Turnbull 1987). Indeed, Andersen's (1993) conceptual critique focused on the weak theoretical underpinning of many of the models and the lack of congruence between theory and practice. Later, I will show the limited applicability of this notion among my Thai-based companies. He concluded that their ability to delineate boundaries between stages, or adequately explain the processes that lead to movement between stages, was rather limited. The stage models merely identify the internationalisation patterns of certain firms, but not of others, and that they fail to explain adequately the processes involved seem to reflect the consensus position on the topic (Bell and Young 1998).

Indeed, divergent empirical results have led many authors to seek complementary frameworks to the internationalisation process of SMEs. Increasing interest has been shown in network theory and internationalisation (e.g. Bell 1995; Benito and Welch 1994; Coviello and Munro 1995, 1997; Johanson and Mattsson 1988; Johanson and Vahlne 1992). The network perspective goes beyond the models of incremental internationalisation by suggesting that a firm's strategy emerges as a pattern of behaviour influenced by a variety of network relationships (Benito and Welch 1994; Coviello and Munro 1997). Relationships form the bridges to foreign markets and provide firms with the opportunity and motivation to internationalise (Johanson and Mattsson 1988). According to this approach, internationalisation depends on an organisation's set of network relationships rather than a firm specific advantage. The activities in the network allow the firm to form relationships, which help it to gain access to resources and markets. Networks also contribute to the success of the firms by helping to identify new market opportunities and contribute to building market knowledge (Coviello and Munro 1995). This externally driven view of internationalisation provides additional insights to the internally driven perspective of stage models. Thus, understanding of the internationalisation process for small firms can be enhanced by integrating the model of incremental internationalisation with the network perspective (Coviello and Munro 1997).

There is no question that network relationships with partners offer helpful new insights and require to be incorporated into models or frameworks of SMEs internationalisation. However, the cause and effect relationships are not yet totally clear. Indeed, it might be argued that networks provide mechanisms to overcome resource deficiencies, rather than being drivers of internationalisation per se (Bell *et al.* 2004).

While certain SME studies support the traditional stage models view (e.g. Dalli 1994; Chetty and Hamilton 1996; Petersen and Pedersen 1997; Gankema *et al.* 2000), other do not (Coviello and Munro 1997; Coviello and McAuley 1999). Several researchers present a substantive challenge to internationalisation stage theories and the notion of incremental internationalisation (e.g. Rennie 1993; McDougall *et al.* 1994; Oviatt and McDougall 1994, 1997; Knight and Cavusgil 1996; Madsen and Servais 1997; Andersson and Wictor 2003).

The challenge is that at present many firms simply do not increase their degree of internationalisation by following the traditional pattern of internationalisation proposed by stage theories. Several firms are becoming international at their inception or begin shortly thereafter, and have been called: international new ventures (McDougall *et al.* 1994; Oviatt and McDougall 1994), born global (Knight and Cavusgil 1996; Madsen and Servais 1997), and global start-ups (Oviatt and McDougall 1995). These seem to be largely inconsistent with the traditional stage models (Knight and Cavusgil 1996; Madsen *et al.* 2000; McDougall *et al.* 1994; Moen 2002; Moen and Servais 2002; Oviatt and McDougall 1997; Shrader *et al.* 2000).

Much of recent literature provides clear evidence of rapid and dedicated internationalisation by 'born global' firms (e.g. Andersson and Wictor 2003; Andersson *et al.* 2006; Bell *et al.* 2001; Moen 2002; Pla-Barber and Escriba-Esteve 2006; Rialp *et al.* 2005). Moreover, several studies agree that the issue under study, accelerated internationalisation from establishment or early firm internationalisation, constitutes an increasingly distinctive pattern of the internationalisation process of some small and medium sized firms when seen in comparison to other type of business (Aspelund and Moen 2001; Bell *et al.* 2003; Jones 1999; Madsen and Servais 1997; Madsen *et al.* 2000; McDougall *et al.* 2003; Moen 2002; Rennie 1993).

The 'born global' firms tend to be smaller firms formed by active entrepreneurs. Andersson and Wictor (2003) identify entrepreneurs and personal networks as the most important factors in the development of Born Globals. A rapid SMEs internationalisation process can be driven by existing network relationships, particularly by international networks and major partners (Coviello and Munro 1997). Furthermore, the international entrepreneurial orientation of the founders is suggested as one of the prime factors that determines the speed of SMEs international involvement and impacts the success of SMEs internationalisation (Knight and Cavusgil 1996; Oviatt and McDougall 1997; Wright and Etemad 2001). A common characteristic is that management adopts a global focus from the outset and embarks on rapid and dedicated internationalisation. According to Knight and Cavusgil (1996), the emergence of such firms can be explained by recent trends such as advances in information and communication technologies, the increasing role of niche markets, and the growth of global networks, which are facilitating the development of mutually beneficial relationships with international partners. There is little doubt that these trends will increasingly exert a strong influence on small firm internationalisation.

Furthermore, a positive aspect of the empirical research conducted so far is that emergence of early internationalising firms has been reported in major trading countries throughout the world (Moen and Servais 2002; Andersson and Wictor 2003; Rialp *et al.* 2005), especially in the Western world. These firms have been found to exist in places as Australia, USA, Canada, Switzerland, Ireland, New Zealand, UK, Germany, France, Spain, and the Nordic countries (Denmark, Sweden, Norway, and Finland). Rialp *et al.* (2005) also suggest that future research should cover not only these countries but also other different areas, particularly in less developed countries, to confirm the non-geographic specificity of this issue.

The literature review above has already shown that there are many perspectives attempt to explain internationalisation process of SMEs. However, Bell and Young (1998) and Coviello and McAuley (1999) have argued that excessive attention of internationalisation of firm has been paid to the merits of competing theories and models rather than to their potential complementarities. Taken overall the concept of internationalisation of SMEs has yet to be clearly developed as a research object. Nevertheless, considerable progress has been made in establishing its conceptual and empirical foundations, while the emerging debate about the gradual internationalisation and born globals can be considered a healthy step in clarifying the subject.

SMEs can internationalise either gradually or in an accelerated manner, like born globals. Growth is not always the key driving force for SMEs to internationalise (Chetty and Campbell-Hunt 2003). Instead, the business network and relationships, the mentality and mindset of management, the knowledge, resources and the opportunity structure often function as stimuli in the development of the internationalisation process (Bell and Young 1998; Chetty and Campbell-Hunt 2003;

Coviello and McAuley 1999; Coviello and Munro 1997; O'Gorman and McTiernan 2000). Bell and Young (1998) also contend that the nature and pace of internationalisation are conditioned by product, industry and other external environmental variables, as well as by firm's specific factors.

It is difficult to fully capture the internationalisation concept using only one theoretical framework. Many authors also suggest that no single agreed theory exists to fully explain firms' internationalisation process (Crick and Jones 2000; Bell *et al.* 2004; Jones and Coviello 2005). Although the extant views of internationalisation provide useful frameworks for analysis of international operations, the patterns of international growth and the process involved with expansion to foreign markets, when examined independently, they may not fully describe nor explain the complex internationalisation processes and issues faced by today's SMEs. Coviello and McAuley (1999) conclude that SMEs internationalisation should be best understood by integrating major theoretical frameworks. They suggest that future research should integrate the extant views of internationalisation, recognising that no single view may be appropriate. Although the literature has yet to becoming fully integrative in its orientation, it should be suggested that conceptual developments should incorporate concepts associated with the convergence of the major theoretical frameworks as the core of internationalisation. In this manner, these major theoretical frameworks are viewed as related and complementary representations of the internationalisation concept.

SMEs internationalisation is profoundly different and complex in its mechanisms. When studying contemporary SMEs internationalisation, there are too many factors influencing the firm's development, which stem not only from the firm itself but also from its wider network environment (Fletcher 2001). It is apparently not feasible to create a model that applies to all processes and situations in the internationalisation of SMEs, since the reasoning behind SME internationalisation varies greatly. Still, it seems that there should be more customised approaches for the various situations in the internationalisation of SMEs.

Furthermore, SME research, as with all internationalisation, focused on context within theory developed. The extant internationalisation process theories are almost exclusively drawn from studies of Western-based or developed countries' internationalisation process, particularly USA, Sweden, Denmark, and Australia (e.g. Johanson and Vahlne 1977, 1990; Cavusgil 1980; Johanson and Mattsson 1988; Oviatt and McDougall 1994). Accordingly, since all theories of internationalisation have been developed in their specific context, thus they may have specific strengths as well as weaknesses and potential (culturally-bound) biases.

Giving that the extant internationalisation process theories have been developed and tested in those Western-based contexts almost exclusively, there remains a question mark over whether their findings are applicable to contexts that do not share their cognitive and behavioral norms and values. Andersson *et al.* (2006) for example, found that Malaysian furniture firms do not internationalise – in the main – incrementally, or in stages and do not select markets according to measures such as 'psychic distance' as found in the traditional literature. In Thai and Chung's (2008) study into the factors leading to the formation of born global Vietnamese SMEs, they found a lack of generically-derived factors and instead found variable such as entrepreneurial personality to be of most import. Moreover, they found that the reason for the non-applicability of traditional factors and determinants was down to the unique nature of the Vietnamese context. However, these studies did not consider societal-culture as the factor that affects their internationalisation process behaviour. Consequently, it is also an important subject to consider the process of internationalisation of SMEs based in non-western contexts. This present research has particular interest in SMEs in developing Asian economies, especially Thailand. Thai SMEs may behave differently on their internationalisation process behaviour from contemporary internationalisation process theories derived from the Western-based context, particularly USA, Sweden, Denmark, and Australia due to the cultural difference on key features of Thai societal-culture specifically perception of risk may be a major influence on the internationalisation process behaviour of Thai SMEs. The role of risk perception in the internationalisation process of firm and the cultural differences between these Western cultures and Thai culture specifically perception of risk are reviewed in the following sections.

### 2.2.6 Proactive and Reactive Behaviour to Internationalisation

Regarding the internationalisation process of firm, firms can begin and progress in internationalisation process by following either proactive or reactive behaviour. Some firms are deliberately motivated towards international markets. Some firms become involved in international activities because they have been pressured by a foreign customer or agent; though they do not truly consider internationalisation as an objective.

Various researchers have labeled firms that vigorously seek out new export markets, export opportunities, and new network relationships "active" (Piercy 1981),"aggressive" (Leonidou and Kaleka 1998; Tesar and Tarleton 1982), "entrepreneurial" (Yeoh and Jeong 1995), "professional" (Julien *et al.* 1997), and "proactive" (Suzman and Wortzel 1984). In the entrepreneurship literature, proactiveness hinges on the firm 'taking the initiative' in venturing out to seek opportunities and getting closer to the customer (Lumpkin and Dess 1996). Proactive firms likely view internationalisation optimistically as an opportunity primarily because of the existence of some internal advantage that may allow the firm to exploit successfully a new international market. Internal advantage allows the firm to operate from a position of strength and may arise from proprietary market knowledge, skills and know-how, technology, or a successfully differentiated and unique product. Likewise, researchers have indicated the importance of external opportunities that were aggressively sought out by firms (Pett *et al.* 2004).

In contrast, firms that do not actively solicit export sales or aggressively seek out export market information have been described as "conservative," "passive," "low on entrepreneurial orientation," or "reactive" (e.g. Julien *et al.* 1997; Piercy 1981; Suzman and Wortzel 1984; Tesar and Tarleton 1982; Yeoh and Jeong 1995). In addition, reactive export orientation implies the unplanned or defensive adoption of an international strategy, and will therefore, have a less visible effect on the international consolidation of the firm. The reactive exporter sells overseas to dispose of surplus capacity or simply in response to unsolicited orders (Piercy 1981). Reactive firms likely view internationalisation as a necessary response to unfavourable conditions in their current markets. Such conditions may manifest themselves as increased competitive pressures, excess capacity given domestic market conditions, or a persistent declining domestic market. In addition, firms can react to negative changes within the firm and look to internationalisation as a method for improving or overcoming internal problems (Pett *et al.* 2004).

Although all these descriptions of firms' exporting behaviours are conceptually similar, there exists a wide variety of definitions and operationalizations in the literature. Yeoh and Jeong (1995) have proposed adapting the entrepreneurial orientation construct as a means to integrate exporting strategies and actions. They suggest that the entrepreneurial orientation dimension of proactiveness shares many similarities with the notion of proactiveness in the exporting literature.

## 2.3 Managerial Risk Perception and its role in Internationalisation Process of SMEs

### 2.3.1 Factors that Influence Internationalisation Process

A firm's international market involvement arises for a variety of reasons. There are many factors that affect the internationalisation process. Those factors are given various names by different researchers; 'initiating and auxiliary forces' (Aharoni 1966), 'motives' (Alexander 1995), 'triggering cues' and 'facilitating factors' (Hutchinson *et al.* 2007), 'drivers' (Winch and Bianchi 2006), and 'antecedents' (Vida and Fairhurst 1998). In a broad sense, the internationalisation motives have been called the 'push' and 'pull' motives to internationalise (Bartlett 1991; Tatoglu *et al.* 2003) and 'proactive and reactive' motivations (Johnston and Czinkota 1982; Leonidou 1989). Push factors are described as home country characteristics such as intense competitive pressures, small economic, and population growth, restrictive trade regulations that make the home country unattractive and push the firm to international markets. On the other hand, pull factors are attractive host country characteristics such as niche markets, market growth potential that pull the firm to international markets (Bartlett 1991; Tatoglu *et al.* 2003). Proactive motives denote the firm's interest in exploiting internal strengths or opportunities in overseas markets (e.g. possession of a competitive advantage, special management interest, and exclusive information on overseas markets), while reactive motives exemplify a response to organisational or environmental pressures (e.g. competitive movements, declining domestic sales and saturation of domestic market) (Johnston and Czinkota 1982; Leonidou 1989). Typically in the literature, the two dichotomies (i.e. push vs. pull and proactive vs. reactive) have not been formally distinguished and instead have been incorporated into the wider classification of internal (firm-based) and external (environment-based) drivers to internationalise the firm (Leonidou 1995; Pett *et al.* 2004). Nevertheless, Miesenbock (1988) argues that these motives become operative only to the extent that they are brought to the attention of the executive who is responsible for making the strategic decisions of the organisation.

### 2.3.2 Entrepreneur and Internationalisation Process of SMEs

Since our interest is in the internationalisation of SMEs, we cannot neglect the importance of entrepreneurs. Entrepreneurs are individuals carrying out entrepreneurial actions (Andersson 2000). They are one of the most important agents of change with the capacity and willingness to take risks in realising their judgments, to be innovative and to exploit business opportunities in a market environment (OECD 2000). An important contribution of entrepreneurship research is that the owner/founder has a dominant role in strategy determination for SME (Shaver and Scott 1991; Stuart and Abetti 1987).

Entrepreneurs are widely recognised as the main variables in SME's internationalisation (Miesenbock 1988). They are regarded as crucial for firms' international strategies, since they are the key decision-makers within a company (Andersson 2000; Johanson and Vahlne 2009). The importance of entrepreneurs has been dealt with in many studies, which have found a relationship between a positive international development and the entrepreneur's international attitude, motivation, orientation, experience and network (e.g. Andersson and Wictor 2003; Bell *et al.* 2001; Bloodgood *et al.* 1996; Madsen and Servais 1997; McDougall *et al.* 2003; Moen 2002; Oviatt and McDougall 1994, 1997; Thai and Chong 2008).

Many studies point out that analysis on an individual level is important for an understanding of firms' international behaviour (e.g. McDougall and Oviatt 1994; Madsen and Servais 1997; McAuley 1999; Thai and Chong 2008). Furthermore, research has shown that the characteristics of the entrepreneur (owner/founder/manager) contribute to the internationalisation of firm (e.g. Harveston *et al.* 2000; Ruzzier *et al.* 2006; Weerawardena *et al.* 2007). At the managerial level, the attitudes and mindset of the management team play an important role in determining the extent to which a firm engages in international activities (Harveston *et al.* 2000).

### 2.3.3 Managerial Risk Perception and Internationalisation Process of SMEs

SMEs managerial attitudes about environmental conditions and strategy are important primarily because the SME owner/founder is actively in managing the firm (Shaver and Scott 1991; Stuart and Abetti 1987) and they influence action-involving internationalisation (Campbell 1996; Reuber and Fisher 1997). The owner's/founder's perception of or attitude toward changed environmental conditions likely influence the strategic actions of the firm. Since the top manager in an SME plays such a dominant role, it is logical to assume that the managerial perception of conditions or circumstances will be a significant factor in shaping the firm's internationalisation. Consequently, this present research is interested in examining the influence of managerial perception of risk on the internationalisation process of Thai SMEs.

It has been noted that the most important organisational decisions are those characterised by risk (Sitkin and Pablo 1992). Risk is undeniable variant when firms conduct their business due to uncertainty situations they have to face, and it has become more important especially when firms involve in international operations as more uncertainty situations may occur. The internationalisation involves with risk and uncertainty along the process of firm increasing involvement in international operations. Indeed, much of the logic underpinning the stage model theory stems from the progressive overcoming of the 'unknown' which foreign markets – to greater or lesser degrees – compare (Johanson and Vahlne 2009).

The notion of risk has been widely discussed and defined in different management disciplines, including strategy, finance, and marketing. Nonetheless, Johanson and Vahlne, in a recent article, argue that *"it would appear that neither we nor other researchers really know much about the propensity for taking risks either in the past or now"* (Johanson and Vahlne 2009, p.1432). In classical decision theory, risk is conceptualised as the variance of the probability distribution of possible gains and losses associated with a particular alternative (Pratt 1964 cited March and Shapira 1987). However, some studies argue that this approach fails to capture the concept of risk as perceived and recognised by managers. From the managerial point of view, risk is often perceived to be associated with hazards, disappointing or negative outcomes which have a significant impact on the organisation's value and its ability to achieve targets (March and Shapira 1987; Sitkin and Pablo 1992; Miller and Leiblein 1996). In other words, managers are more apt to consider risk as a danger or hazard rather than a theoretical range of possible outcomes.

While risk is universal, there is no single accepted definition of risk (Miller 1992; Hagigi and Sivakumar 2009). Holton (2004, p.22) defines risk as *"exposure to a proposition of which one is uncertain"*. Olsson (2002, p.5) adopts the definition of risk as *"the uncertainty of future outcome(s)"*. He also suggests that risk is something that happens in the future but cannot predict exactly today because there is uncertainty. March and Shapira (1987, p.1409) stress about uncertainty concept, displaying in their managerial perspective that *"risk-taking is synonymous with decision making under uncertainty."* Thus, in this same line of thought, risk exists because of an uncertain setting.

Hofstede (1997) argues that uncertainty is not the same as risk. He expresses *"Uncertainty is to risk as anxiety is to fear. Fear and risk are both focused on something specific: an object in the case of fear, an event in the case of risk. Risk is often expressed as a percentage of probability that a particular event may happen. Anxiety and uncertainty are both diffuse feelings. Anxiety, as was argued earlier, has no object. Uncertainty has no probability attached to it. It is a situation in which anything can happen and we have no idea what."* (Hofstede 1997, p.116). Nevertheless, when two things are separate yet somehow dependent, in a certain way, risk and uncertainty have that ubiquitous association. Knight's (1921 cited Haley 2003 and Figueira-de-Lemos *et al.* 2011) view is a good illustration of this idea. He starts by assuming that risk and uncertainty are two separate concepts; risk (or situations in which decision makers assign probabilities on the basis of known chances) is based on explicit knowledge, while uncertainty (or situations in which decision makers cannot assign probabilities because they cannot calculate chances) is assumed to be related to implicit knowledge. The frontier is somehow dynamic between risk and uncertainty. Knight argues that if, by any method, some part of uncertainty may be expressed in a quantitative probability then it fades into risk. The remaining part, the uncertainty that cannot be framed quantitatively, is defined as 'true uncertainty'.

Risk is intangible and will be seen differently by different people not only in terms of what the risk are but also what the range of possible outcomes are and probabilities they attach to those outcomes (Olsson 2002). Everyone's perceptions of risk will be different. Slovic (1987, p.280) identifies risk perceptions as "*intuitive risk judgments*". In the same line, Sitkin and Pablo (1992, p.12) define risk perception as a *"decision maker's assessment of the risk inherent in a situation"*. The assessment of risk reflects the degree to which an individual perceives a particular situation as negative or as a threat (Sitkin and Weingart 1995). Risk perception involves people's beliefs, attitudes, judgements and feelings, as well as the wider social or cultural values and dispositions that people adopt, towards hazards and their benefits (Pidgeon *et al.* 1992 cited Wardman 2006).

Risk perceptions have drawn scholarly attention in part because of their impact on decision makers' behaviour, leading decision makers to deny uncertainty, to overestimate or underestimate risks, and to exhibit unwarranted confidence in their judgments, knowledge, and ability to perform under risky condition (Sitkin and Pablo 1992).

The perception of risk underpinning internationalisation decisions and processes is relatively unresearched although some ideas can be gathered from the extant literature. Apart from demographical variables, Leonidou *et al.* (1998) are able to identify the importance of perception of risk on decision to internationalise. According to Sullivan and Bauerschmidt (1990), internationalisation is a strategic decision that must fit into both the cognitive (managerial) and resource character of the firm. Sullivan and Bauerschmidt's (1990) study also confirms that managerial perception of risk in foreign markets and country conditions motivate international expansion. Thus, managers who perceive higher levels of risk are less likely to lead the firm into international markets than managers who perceive lower levels of risk (ibid).

Besides, the important finding from Manolova *et al.* (2002) is that internationalisation is a function of perceptions. If the owner/founder or manager perceives that there is a lower level of environment uncertainty in a particular international market, or perceives that there is the requisite skill set to internationalise, then chances are high that the small firm will be pursuing a strategy of internationalisation. They indicate that owners/founders are likely to draw on their international experience, skills, or overall competences when internationalising their own firms. Owners/founders who had international work experience or established personal networks and relationships abroad would possess the skills necessary to conduct international business arrangements. Therefore, for owners/founders or managers with these sets of skills and positive environmental perceptions, the process of internationalisation has less uncertainty, and hence is more likely to be pursued than it is for owners/founders or managers without comparable skills or perceptions (ibid).

Aharoni (1966) indicates the crucial effect of perception and uncertainty in the course of the internationalisation process. Decision to invest abroad has been suggested that uncertainty is involved because managers tend to overestimate the amount of risk involved in foreign ventures (Aharoni 1966). Conceptually, the managerial perception of risk has been argued to be an important determinant of internationalisation (Johanson and Vahlne 1977, 1990). According to traditional theories of internationalisation such as the stage models, the manager's concern or perception of foreign market risk is the central inhibiting factor affecting the internationalisation process. The stage theory emphasises that gaining knowledge about foreign markets relieves this managerial concern. A decision for market commitment depends on what the firm knows about the market and what it has committed to the market (Johanson and Vahlne 1977, 1990).

Incremental progress addresses the reduction of risk in the international market. Firms are attracted to foreign operations first in more familiar or psychical close distance and that only small steps in operational commitments are undertaken initially, in order to reduce the perceived risk of the international operations and to increase the efficiency of information flows between the firm and the target market (e.g. Johanson and Wiedersheim-Paul 1975; Johanson and Vahlne 1977, 1990; Cavusgil 1980; Welch and Loustarinen 1988). This also allows experimentation without high risk and the time required to gather relevant knowledge and experience, before any deeper commitment is contemplated.

Alternatively, as formed by active entrepreneurs, Born Globals have not viewed risk as barrier for internationalisation but the possibility that can obtain benefits from taking risks. To form born global firms, the entrepreneurs must be proactive and risk taking (Thai and Chong 2008). Managers of born global firms are found to exhibit greater willingness to take risks in ambiguous situations such as those involve in internationalisation while managers of gradual internationalising firms are found to be more risk-averse thereby, slowing internationalisation of firm (Harveston *et al.* 2000). Therefore, born global firms have a global market view from the outset and accelerate in the process of internationalisation which is driven by a desire to gain first mover advantage and to lock-in new customers. The risk of entering foreign markets is managed by exploiting simultaneous trade-offs between entry mode commitment, country risk and foreign revenue exposure in each country (Shrader *et al.* 2000).

Concerning pace of internationalisation, risk perception derived from the international operations is the main determinant for the speed of internationalisation. Acedo and Jones (2007) conclude that firms with lower levels of risk perception are more likely to internationalise more quickly. Implications are that perception of risk is the key cognitive factor as regards rapid internationalisation. Furthermore, the level of risk perceived by firm plays a crucial role in the entry mode decision. In entering a new market, firms aim to minimise the risks associated with operating in the environment. This is particularly the case when the perceived risk is higher than the manageable level. Ahmed *et al.* (2002) find that low risk perceptions were associated with high levels of resource commitment and control modes of entry. Nevertheless, it has been found that the risk perceived is higher when the firm advances in its international commitment level. Therefore, if firms know the factors which can affect the risk perceived about international activity, they will stand a better chance to handle them properly with a view to move forward in their internationalisation process (Claver *et al.* 2008).

Furthermore, empirical studies have identified several groups of determinants of risk perception: socio-demographic characteristics (Hakes and Viscusi 2004; Brenot *et al.* 1998; Savage 1993), religious and quasi-religious beliefs (Sjoberg and Wahlberg 2002; Kouabenan 1998), general trust level (Siegrist 2000; Flynn *et al.* 1992), cultural factors (Dake 1991, 1992; Dake and Wildavsky 1991), personal facets or psychological/personality traits (Chauvin *et al.* 2007; Bhagat *et al.* 2002; Lord and Maher 1991; Weiss and Adler 1984), and experience and information learning process (Barnett and Breakwell 2001; Liu *et al.* 1998). All of these influences will have an impact on how people perceive risk, what risks they think are most important, what they think the probability of a risk event occurring is, and what the impact of that event might be should it occur.

Among various determinants of risk perception, this research has focus on cultural difference in risk perception. Concerning the cultural determinant of risk perception, there are supportive studies shows that differences in risk perception are the result of cultural differences (Hofstede 2001; House *et al.* 2004; Weber and Hsee 1998; Weber *et al.* 1998; Bontempo *et al.* 1997). These suggest that cross-cultural differences in risk perception are at the source of differences in the way members of different cultures choose among risky options. In the same or similar situations, members of the different cultures perceive different level of risk. Thus, they will act differently in those situations according to their risk perception.

Managerial risk perception plays important role on firm's internationalisation. It has been claimed to be an important determinant affecting decision to internationalise (Aharoni 1966; Sullivan and Bauerschmidt 1990; Manolova *et al.* 2002), selection of international market (Johanson and Wiedersheim-Paul 1975; Johanson and Vahlne 1977, 1990; Cavusgil 1980), level of resource commitment and control modes of entry (Ahmed *et al.* 2002), speed of internationalisation (Acedo and Jones 2007), and motivation of international expansion (Johanson and Vahlne 1977, 1990; Sullivan and Bauerschmidt 1990). Additionally, risk perception is different due to many factors. One of the determinants is culture which is the main concern in this research. Risk perception is considered to vary between cultures. Consequently, this may cause different influence on firms from different cultures in terms of their decision to internationalise, selection of international market, choice of international entry mode, pace of initial internationalisation, international development process, and thus cause the difference on their overall internationalisation process behaviour.

## 2.4 Cultural Risk Values

National culture is most famously described as *"the collective programming of the mind that distinguishes members of one human group from another"* (Hofstede 1980, p.25). A culture can be validly conceptualised at the national level if there exists some meaningful degree of within-country commonality and between-country differences in culture. The literature indicates that this is indeed the case. Hofstede (1997, p.12) argued that *"nations are the source of a considerable amount of common mental programming of their citizens"* due to a relatively similar history, language, political, legal, and educational environment, among others. However, this does not imply that countries are fully homogeneous, but that there are forces pushing to a meaningful degree of within-country commonality. Many others also share Hofstede's position (e.g. Smith and Bond 1993; Smith *et al.* 1996; Schwartz 1994, 1999).

Moreover, many empirical works show that there is systematic variation between countries on the national-cultural level (e.g. Hofstede 1980, 1997; Schwartz 1994, 1999; Smith *et al.* 1996). The countries are clearly separated from each other on national-cultural dimensions. If there were no degree of commonality within countries and diversity between countries, such results would be unlikely to emerge. Hofstede (1980) found that, even for countries that are less well culturally integrated, the different ethnic and/or linguistic groups have important commonality in culture in comparison to the population of other countries. Smith and Schwartz (1997, p.112) report that cultural differences among samples from three regions in China, three in Japan, and five in the USA *"were dwarfed by the much larger differences between nations."* Schwartz and Ros (1995) found across a sample of 13 countries that nation accounted for about three times more variance in the ratings on the items used to measure national culture than any within-national variable examined, such as gender, education, age, and marital status.

Concerning risk-related behaviour and attitude/perception, Hofstede (1980, 1997) and House *et al.* (2002, 2004) have demonstrated cultural differences in uncertainty avoidance (UA) among countries and societies. Also, there are differences of tolerance for ambiguity due to different cultural patterns (Hofstede 1997; Bhagat *et al.* 2002). Salacuse (2003) supports these conclusions. In deal making, the negotiators' cultures can affect the willingness of one side to take risks and to tolerate uncertainties in a proposed course of action.

Uncertainty avoidance can be defined as "*the extent to which the members of a culture feel threatened by uncertain or unknown situations*" (Hofstede 1997, p.113), and tolerance for ambiguity is defined as the extent to which an individual is able to make decisions in risky environments or situations filled with uncertainty (Westerberg *et al.* 1997). Similar to Hofstede, GLOBE study (House *et al.* 2002, 2004) also identified uncertainty avoidance as one of major attributes of culture. In GLOBE study, uncertainty avoidance is defined as *"the extent to which members of an organization or society strive to avoid uncertainty by reliance on social norm, rituals, and bureaucratic practices to alleviate the unpredictability of future events."* (House *et al.* 2002, p.5). Uncertainty avoidance in GLOBE study has its origin in the uncertainty avoidance identified by Hofstede (1980, 1997). Moreover, it is intended to reflect the same construct as Hofstede's uncertainty avoidance (House *et al.* 2002). Leung *et al.* (2005) also conclude that uncertainty avoidance is – broadly speaking - conceptually the same in both Hofstede and GLOBE study.

However, despite the fact that the GLOBE study was designed at its inception to replicate and elaborate on the Hofstede (1980, 1991) study, Uncertainty Avoidance as defined and operationalised in the GLOBE analysis correlates negatively with Hofstede's dimension, and sometimes significantly so. And whereas – as Venaik and Brewer (2008) argue – some convergence between countries over the years may be plausible what isn't plausible is the near-reversal of the Hofstede findings. Furthermore, the disparity between the 'as is' practice scores and the 'should be' value scores for countries such as Switzerland and – more importantly for this study – Sweden is given no compelling explanation (Venaik and Brewer 2008). Subsequent scholars – although acknowledging the expanse and importance of the GLOBE project overall – suggest that for the dimension of uncertainty avoidance at the level of the country the questions asked to gauge the dimension at both ‘as is’ and ‘as should be’ levels is simply too abstract, touching on hidden meanings not intended by the designers i.e. of unconscious feelings more than perceptions of fact (see e.g. Hofstede 2006).

Hofstede (2006) in particular argues that the questions belonging to the GLOBE uncertainty avoidance dimension are at a high level of abstraction and consequently *“rather far from respondents’ daily concerns”* (Hofstede 2006, p.885). The example cited runs as follows:

*“(a) in this society societal requirements and instructions are spelled out in detail so citizens know what they are expected to do. Strongly agree – strongly disagree (b) in this society, societal requirements and instructions should be spelled out in detail so citizens know what they are expected to do. Strongly agree – strongly disagree”* (House *et al.* 2004 cited Hofstede 2006, p.885).

This compares with the Hofstede (2001, p.146) questions – for example *“How often do you feel nervous at work?”* and *“Company rules should not be broken even when the employee thinks it is in the company’s best interests”* are far easier to grasp and are more directly relevant to the employees daily work activities (Hofstede 2006; Venaik and Brewer 2008).

Consequent difficulties in using – and relying on – the uncertainty avoidance dimension as reported by GLOBE for the internationalisation process has also been voiced among interested scholars (e.g. Hofstede 2006; Venaik and Brewer 2008, 2010). On balance then, in this study I therefore base my assumptions concerning risk and uncertainty avoidance based on the measures of Hofstede and subsequent scholars (e.g. Bhagat *et al.* 2002) for the relevant countries in this study – both my empirical setting and the countries from which the theories have been designed and operationalised (i.e. Thailand as set against the USA and certain Scandinavian countries, and Australia).

The dimension of Uncertainty Avoidance according to Hofstede specifically measures the extent to which different cultures socialised their members into accepting ambiguous situations and tolerating uncertainty (Hill 2007). According to Hofstede (1997), uncertainty avoidance and tolerance for ambiguity is different between countries due to cultural differences. Hofstede (1997) measures uncertainty avoidance and (in)tolerance for ambiguity by assigning uncertainty avoidance index (UAI) score (Appendix 16). A higher uncertainty avoidance index score indicates the country has more concern about uncertainty and has less tolerance for ambiguity.

Additionally, Hofstede (1980, 1997) attempts to measure uncertainty avoidance associated with willingness to take risk for a number of different countries. He concludes that certain cultures are more risk averse than others. Hofstede (1980) makes a summary of connotations of uncertainty avoidance index differences found in his survey research and it is included a risk taking, in lower uncertainty avoidance index (UAI) countries are more risk taking (greater willingness to take risks). High uncertainty avoidance is probably associated with risk aversion (Hollensen 2004), while lower uncertainty avoidance cultures are characterised by a greater readiness to take risks and less emotional resistance to change (Hill 2007).

Similar to Hofstede, Bhagat *et al.* (2002) also determine that tolerance for ambiguity differs due to cultural patterns. In their view, horizontal individualists (e.g. Australia, Denmark, and Sweden) and vertical individualists (e.g. United States, United Kingdom) are more likely to possess a higher tolerance for ambiguity than other culture patterns. In contrast, people in vertical collectivist cultures (e.g. Thailand and other developing countries in Asian context) and horizontal collectivist cultures (e.g. Japan) are likely to be less tolerance for ambiguity.

# 2.5 Thai Culture

Thai culture exercises significant influence on business dealings and it is quite different from the Western culture. Thai culture – as with others – can be analysed via two primary perspectives from which a culture can be understood, namely through 'Emic' dimensions on the one hand and 'Etic' dimensions on the other. The emic approach focuses on examining a construct from within a specific culture and understanding that construct as the people from within that culture understand it (Gudykunst 1997). An 'emic' account is therefore culture specific, i.e. particular to the culture in question and hence looking from the inside out. For Thai culture, emic focuses in particular on the concepts of *kreng jai, bunkhun, hai kiad, nam jai, henjai, sam ruam, and face saving* (see Appendix 15 for detail). However, the attention of this study concerns about cultural differences which can be evaluated between cultures. Therefore, the interest of this study is focused on the comparative etic approach which is discussed next.

The etic approach describes behaviour or belief in constructs that apply across cultures (Morris *et al.* 1999). In this way the 'etic' perspective is cultural universal and characteristically looking from the outside in. The review is concentrated on etic approach in order to compare the cultural differences between Thai culture and the Western cultures which dominate the internationalisation process theories. This tends to be expressed in continuing of pre-identified dimensions of culture. Specific dimensions of culture which characterise Thailand can be taken from the numerous dichotomies and frameworks within the international business/management literature namely those from Hall (1976), Hofstede (1980, 1997), Schwartz (1999), Trompenaars and Hampden-Turner (1997) and House *et al.* (2004). But integrating these major frameworks with regard to the Thai context we can state that in broad terms Thailand is relatively high context, collectivist, hierarchical, relations-based, and moderately high needs to avoid uncertainty, when compared – to greater or lesser degrees - with the USA, Australia, Sweden, Norway and Finland.

To begin with, Thai culture is relatively high context and collectivist (Hall 1976; Schwartz 1999; Hofstede 1997; Trompenaars and Hampden-Turner 1997; Keegan 1999; Hollensen 2004; House *et al.* 2004; Mead and Andrews 2009). Thais find comfort and security in being part of a group. Thai people like to work together within a group basis (Hall 1976; Hofstede 1997; Nimanandh and Andrews 2009).

High power distance, hierarchy and seniority are important (Hall 1976; Schwartz 1999; Hofstede 1997; House *et al.* 2004). Thais respect hierarchical relationships, and Thai business reflects a society in which hierarchy and respect for seniors are very important (Holmes and Tangtongtavy 1997; Nimanandh and Andrews 2009).

Being subtle and indirect is another prominent and highly valued characteristic in Thai culture. Thai people tend to be indirect in their dealings with each other and go around an issue rather than directly to the key point (Hall 1976; Trompenaars and Hampden-Turner 1997; Nimanandh and Andrews 2009). Non-verbal communication is often more important than verbal communication and is of greater import than in Western cultures, a considerable part of the information lies in the underlying messages or in the non-verbal cues (Hall 1976; Holmes and Tangtongtavy 1997; Nimanandh and Andrews 2009).

Business decisions are slow as decisions pass through many levels before decided upon. Thais are generally not confident decision makers and often need to consult with several people before making a decision, leading to a lengthy process (Nimanandh and Andrews 2009). Thai culture is relationship oriented. Personal ties and trust are important to the Thai people. Relationship building is an important part of business and the negotiation process (Hall 1976; Trompenaars and Hampden-Turner 1997; Nimanandh and Andrews 2009). Thais place great importance in "liking" their business partners and prefer doing business with people they respect. Relationships develop slowly and do not flourish after one meeting. Negotiations may be lengthy. Process takes precedence over content (Nimanandh and Andrews 2009).

Another important culture dimension and also focus of this study concern about risk values in Thai culture especially cultural differences in risk perception. There is demonstrated under subsector below.

## *Risk values in Thai culture*

One view emerges from Hofstede's (1980) uncertainty avoidance. Thais give much consideration and importance on mitigating and avoiding uncertainty. Thus, Thai culture has been illustrated as moderately high needs to avoid uncertainty (Hofstede 1980, 1997).

According to Hofstede (1997)'s uncertainty avoidance index (UAI) score, Thailand is ranked 30th (score 64) from 50 countries and 3 regions, compare with Western cultures where the extant internationalisation process theories are developed and executed, particularly Australia (37th, score 51), USA (43rd, score 46), Sweden (49/50th, score 29), and Denmark (51st, score 23), see Appendix 16.

Of interest in these scores is not their absolute level but rather the pattern of differences across countries. Thailand holds a moderately to significantly higher uncertainty avoidance index (UAI) score than these Western countries. These show significant difference in term of uncertainty avoidance and tolerance for ambiguity between Thai and the following cultures. Additionally, Bhagat *et al.* (2002) emphasise that people in vertical collectivist cultures (e.g. Thailand and other developing countries in Asian context) and horizontal collectivist cultures (e.g. Japan) are likely to be less tolerance for ambiguity than horizontal individualists (e.g. Australia, Denmark, and Sweden) and vertical individualists (e.g. United States, United Kingdom). These tend to show that Thai culture is more concern about uncertainty and less tolerate for ambiguity than the Western cultures, especially USA, Sweden, Denmark, and Australia where the extant internationalisation process theories are developed and executed. Consequently, this can be implied that Thai culture is less willingness to take risk compare to these Western cultures as well.

When managers are more uncomfortable dealing with uncertainty, it is likely that they will perceive more risk in such situation (Hofstede 1980; Weber *et al.* 1998). Furthermore, Hofstede's (1980) interpretation of uncertainty avoidance (UA) suggests that UA should affect risk perception and that, in particular, for members of cultures with greater scores on UA, risk perception should be affected more by potential losses and less by potential gains. Uncertainty avoidance seems directly related to the attribute of perception of risk that is critical in discerning threat and opportunity. In addition, Acedo and Jones (2007) find that individuals who are more tolerant of ambiguity are less perceptive of risk. Accordingly, since uncertainty avoidance and tolerance for ambiguity are different across cultures (Hofstede 1980, 1997; Bhagat *et al.* 2002), they should affect risk perception differently between cultures and thus effect different risk perception in different cultures.

As mention above in section 2.3.3, risk perception is different due to cultural differences. Therefore, Thai culture should have different risk perception from the Western cultures where the extant internationalisation process theories are developed and executed, particularly USA, Sweden, Denmark, and Australia due to cultural differences in i.) uncertainty avoidance and ii.) tolerance for ambiguity between Thai and these Western cultures. Taking the overall concepts, Thai culture is higher uncertainty avoidance and less tolerance for ambiguity than these Western cultures. Consequently, these can be implied that Thai culture is more risk aversion and exhibits a higher level of risk perception than these Western cultures.

## 2.6 SME Internationalisation in the Thai Societal Context: Explaining the impact of cultural risk perception

As discuss above (in section 2.1.1), a single, universally accepted definition of term 'internationalisation' remains elusive, with a number of interpretations being found in the literature (Coviello and McAuley 1999). There is still no comprehensive definition of internationalisation (Andersen 1997; Coviello and McAuley 1999). This research adopts a processual perspective to interpret internationalisation of SMEs as changes of state aspects (the current positions at the point in time) of a firm in terms of its involvement in cross-border business activities (Buckley and Ghauri 1999; Johanson and Vahlne 1990). It is proposed that internationalisation can involve both inward and outward cross-border links (Welch and Loustarinen 1988, 1993; Jones 2001) (in section 2.2.4). As discuss in section 2.2.4, this research is only concerned with the outward internationalisation of SMEs.

Given that the vast majority of the extant internationalisation process theories have been developed and tested in the Western-based contexts, particularly USA, Sweden, Denmark, and Australia almost exclusively. There remains a question mark over how far these findings are applicable to contexts that do not share their cognitive and behavioral norms and values. Therefore, the main concern of this research is the impact of cultural differences in risk perception towards Thai SMEs internationalisation process. Taken the overall above literatures and research questions, the theoretical framework proposed for this research is summarised in Figure 2-4.

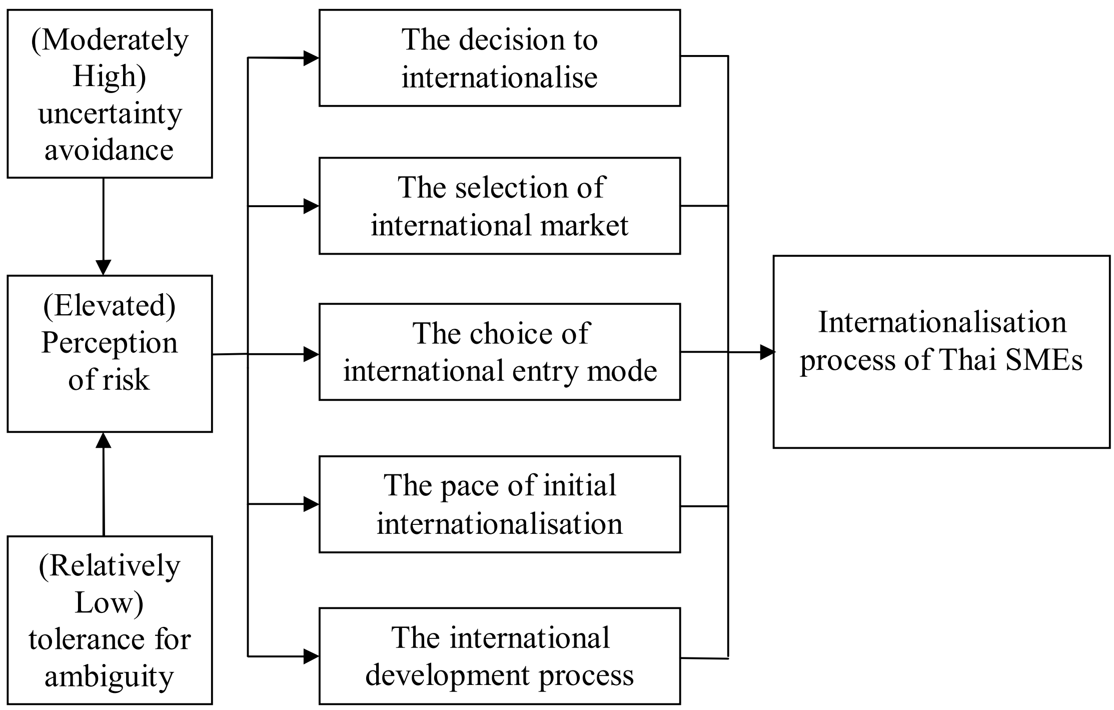


Figure 2-4: The Theoretical framework

Based on the theoretical framework, this research analyses the internationalisation process of Thai SMEs and the influence of risk perception characteristic of Thai societal culture. The central proposition is that elevated risk perception characteristic of Thai societal culture – which is induced by moderately high uncertainty avoidance and relatively low tolerance for ambiguity – inhibit the internationalisation process of Thai SMEs.

Thais have elevated level of risk perception due to i.) moderately high uncertainty avoidance and ii.) relatively low tolerance for ambiguity. Intuitively, this should influence Thai SMEs internationalisation process behaviour in term of decision to internationalise, market selection, mode of entry, pace of initial internationalisation, and subsequent internationalisation. The decision to internationalise should be influenced by the relatively high level of risk perception which demonstrates that Thais seem less likely to lead their firm into international markets. Therefore, Thai SMEs may usually start their operation domestically first and subsequently take quite a long time in order to make decision to involve in international market. As a result, their speed of initial internationalisation is slow.

In term of international market selection, Thai SMEs' international markets selection may not follow the psychic distance concept which firms initially target psychically close markets and subsequently enter foreign markets with successively greater psychic distance. Their international markets should be selected base on where they perceive potential and low risk for them. These markets can be either psychically close market or not. In order to get in international market, Thai SMEs choose their international entry mode strategy which low level of resource commitment and control mode of entry. Therefore, export is the most common entry mode strategy for them. Nevertheless, they may find difficulty in order to expand their international business further than export because they perceive too high risk to do so. Their internationalisation process may not go beyond exporting activity.

Following the review of the literature and theoretical framework above, in order to answer the overarching research questions, a series of sub questions need to be explored.

Question 1 (Q1): How do Thai SMEs internationalise?

Question 2 (Q2): How does elevated risk perception characteristic of Thai societal culture – which is induced by moderately high uncertainty avoidance (UA) and relatively low tolerance for ambiguity – affect the behaviour of Thai SMEs with regard to the following:

(i) The decision to internationalise?

(ii) The selection of international markets?

(iii) The choice of international entry mode?

(iv) The pace of initial internationalisation?

(v) The international development process?

In order to reveal this process, the research looks closely at the internationalisation process of the selected SMEs as well as the cultural differences on risk perception that may affects their internationalisation process. The research analyses patterns and influences related to the SMEs' decision to internationalise, market selection, mode of entry, pace of initial internationalisation, and subsequent internationalisation. It is expected that the understanding of these circumstances will illuminate the dynamic aspects of how perception of risk characteristic of Thai societal culture affects the internationalisation process of Thai SMEs.

# Chapter 3
# Research Methodology

This chapter outlines and explains the methodological design and procedures undertaken to carry out this research. I begin with the explanation and justification of research method. The second section discusses sampling issues as well as the overall design strategy adopted. A more detailed description of the design and implementation of the research method utilised then follows. I then outline at length my data collection techniques. Finally, the last section explains the data analysis procedure.

## 3.1 Methodology

### Objectives

My overarching aim as concerns choice of method was to incorporate the most appropriate method to address my specific research questions. To recap, the aim of this research is to examine the cross-cultural applicability of internationalisation process theory, specifically perception of risk, through an exploration of SMEs in Thailand. The central concern of the research is to investigate *how* and *to what extent* cultural differences concerning risk perception moderate the internationalisation process of Thai SMEs. The research translates this principal enquiry into two specific primary research questions:

1) to what extent do existing theories of internationalisation predict the internationalisation process behaviour of Thai SMEs? How, if at all, does our existing understanding need to be refined in order to accommodate the traits that characterise the Thai societal cultural and business context?;

2) how does the risk perception characteristic of Thai societal culture – which is induced by moderately high uncertainty avoidance (UA) and relatively low tolerance for ambiguity – affect the internationalisation process of Thai SMEs?

## Nature of the Phenomena

There are two key features of this study to note when selecting the most appropriate method of primary data collection. One is the relative lack of literature (although with certain exceptions) in my specific area. The other is the nature of then phenomena I am investigating.

Firstly, there is a lack of prior research explicitly addressing my research questions, specifically a lack of study has focused on the internationalisation of SMEs in Thailand and, in particular, with a focus on risk perception influence on these SMEs internationalisation process behaviour. Given the lack of research in this specific interest, I decided from the outset that an exploratory approach was the most fitting. Moreover, this is supported by other key studies with similar circumstances (Eisenhardt 1989; Collis and Hussey 2003).

Secondly, the nature of the phenomena under investigation is centred on individual interpretation, feeling and motivation (with societal-level predictions). I am seeking to uncover the influence of culturally pre-disposed attitudes to risk and the subsequent influence of such attitudes on both the individual's and his/her companies behavior with regard to doing business abroad. This, almost by default, emphasises 'how' and 'why' questions – why did the individual and his/her organisation internationalise the way they did and how – if at all - did their cultural perception of risk affect the internationalisation process. Capturing – or at least approximating to – this knowledge entails a preoccupation with attitudes and perceptions and at both conscious and subconscious levels.

## 3.2 Qualitative Procedures

Against the backdrop described above, I decided on an exploratory, interpretive methodology using predominantly qualitative techniques for both data collection and analysis. The sample selected was comprised a small number of case SMEs. This limited sample I deemed as most suitable in order to capture the depth and the richness of data required to answer sufficiently my overarching research objectives. It is also in accord with previous studies and methodological recommendations for addressing both 'how' and 'why' questions (Ghauri and Gronhaug 2005; Easterby-Smith *et al.* 2002; Yin 2003).

The flexibility of my limited case method facilitates the discovery of rich and subtle facets of a phenomenon, and thus allows new insights to emerge from within its complexities even when little in the way of established literature or prior empirical findings is available (Chetty 1996; Eisenhardt 1989; Yin 2003). Furthermore, this approach has been credited as an effective way of gaining a rich depth of information about the dynamics of organisational activity (Stake 1994), such as internationalisation process of firm. Questions regarding the internationalisation process of firm often involve dynamic change. An evident advantage of case studies is that it can be used to trace events over a period of time and/or, retrospectively, and therefore capture some dynamic aspects that other research methods fail to notice.

The other determinant of my research approach was that the phenomenon under investigation required analysis in its specific context, one over which I had little control. Indeed – given the distinctive individuality, subjectivity, and intertwining social and business contexts of my SME sample - it would have been difficult, if not impossible, to study this phenomenon apart from its natural social setting. I needed a method which allowed me to remain close and involved with the participants, and to understand their standpoint and realities in order to obtain a real and holistic explanation of my sample SMEs' activities. To this end, i.e. to address the internationalisation process behaviour and perception of risk in real-life context rather than the fact of numbers involved, the qualitative method was clearly the most appropriate to adopt to derive conceptual and contextual insights into the research questions.

## 3.3 Sampling

Using a *limited* number of Thai entrepreneurs at the head of a *small* sample of cases was beneficial due to the inherent flexibility it afforded me – specifically in facilitating the use of multiple methods of inquiry. Due to the nature of the data solicited i.e. predominantly within the realm of opinion, attitude, interpretation and potentially subconscious motives, it was clear from the outset that in the Thai business context a reliance on interviews exclusively would be laden with risk. Rather, I needed to elicit different kinds of related data in addition – such as observation, impressions, diary notes and documentation.

Employing multiple lines of enquiry allowed me the kind of triangulation facilitating the integrity of inferences drawn from the data and gain a clearer understanding of phenomenon under investigation. Collecting data from a variety of sources has also long been held to be a key method for ensuring that construct validity is attained (Yin 2003) – i.e. that the phenomena of risk perception on internationalisation process behaviour was being captured using the most appropriate operational procedures.

In this research, I opted for a comparative approach across eight organisations rather than focusing in depth, but exclusively, on one single company. Evidence from multiple cases better enables comparison, replication and extension (Yin 2003). Furthermore, Eisenhardt (1991) and Stake (1994) find that the multiple-case approach encourages the researcher to study patterns common to cases and theory and to avoid chance associations. Eisenhardt (1989) states that in the multiple-case approach there is no ideal number of cases, but recommends between four and ten. With fewer than four cases, statement is difficult to generate and with more than ten, the volume of data is difficult to cope with.

For this research, my eight case organisations were purposively sampled i.e. chosen by replication logic rather than by sampling logic (Eisenhardt 1989; Yin 2003). In qualitative research the purpose is seldom to arrive at statistically valid conclusions, but rather to understand, gain insights and create explanations (Ghauri and Gronhaug 2005). The replication logic does not claim that the findings from the study represent the entire population. Rather, the empirical results of the case study are compared to a previously developed theory or theoretical proposition which is used as a research template. If two or more cases are shown to support the same theory or proposition, replication may be claimed. The more the results are replicated in multiple cases, the more compelling is the overall study. Under these circumstances, the method of generalisation is called "analytic generalisation" (Yin 2003).

Furthermore, purposive sampling has often been used when working with small samples such as in case study research and when the researcher wish to select cases that are particularly informative (Saunders *et al.* 2003). The basic selection criteria are that the case firms should be in line with the Thai government's criteria for defining SMEs since the research was conducted with SMEs in Thailand. Generally, the SMEs definition by Thai government is a firm which employs not more than 200 people or has fixed assets not more than 50 million baht, see Appendix 17 for detail. (In addition, definitions of SMEs from various countries are reviewed in Appendix 18 and 19 in order to compare between countries' SMEs classification.) They are all in manufacturing, handicraft sector, and known to have an outward international involvement, at least current exporter. As most Thai SMEs are family-run business (www.apecthai.org), they should also be independent and indigenous family-run business (i.e. Thai owner, not subsidiaries of larger domestic companies, to avoid potential resource influences on decision making).

I selected eight SMEs from the manufacturing, handicraft sector. This was for three main reasons. Firstly, the internationalisation literature has emphasised on the activities of firms in manufacturing sector. Specifically, this research tries to answer research question: to what extent do existing theories of internationalisation explain the internationalisation process behaviour of Thai SMEs, which follows the patterns suggested in the literature or whether there are remarkable differences when compared to those existing theories. Therefore, there is more appropriate to investigate the firms in the same sector which theories were developed.

Secondly, Thailand is well known as the global production source of handicraft products. Thai handicraft products are very famous in the world market and bring lots of income from their international sales. They are also important export products particularly for local SMEs. Moreover, Thai government has many projects to help, support and promote SMEs in handicraft sector in order to compete in international market (www.sme.go.th). Consequently, Thai SMEs in manufacturing, handicraft sector are supposed to play a significant role in the research of internationalisation process of Thai SMEs.

Thirdly, I chose firms from the same sector deliberately in order to reduce the potential distortions to emerge from extraneous variables – and this includes *industry type*. Prior research (e.g. Vahlne and Nordstrom 1993) report that industry differences can have an impact on the internationalisation process behaviour of small – as well as big – companies. I therefore chose to select all my firms from this one industry type.

## Respondent Profile

As is typical in family-owned Thai SMEs, the organisation, in structural terms, is relatively thin both vertically and horizontally. The founder/patriarch, along with a very limited number of aides in leadership team, both make and take all responsibility for all decisions made. There are very limited persons who can make decision in the firm. Consequently, the interviews were conducted with the *two* key decision-makers from each firm, specifically the founder/owner and the manager responsible for the international activities of the firm. In each case, they are family members. With two interviewees, I was able, to some degree, better able to be sure of the consistency of the information claimed by these two different respondents (Ghauri and Gronhaug 2005). Altogether, forty-five interviews were conducted.

Table 3-1: Respondent Position

| Company | Respondent 1 Position | Respondent 2 Position | Relationship between respondents |
|---|---|---|---|
| AA | Managing director (co-founder) | Deputy managing director (co-founder) | Husband and Wife |
| BB | Managing director (co-founder) | Marketing Manager (co-founder) | Sister and Brother |
| CC | Managing director (co-founder) | General Manager (co-founder) | Wife and Husband |
| DD | Managing director (co-founder) | General Manager (co-founder) | Wife and Husband |
| EE | Managing director (founder) | Business development director | Aunt and Niece |
| FF | Managing director (founder) | Marketing Manager | Aunt and Nephew |
| GG | Managing director (co-founder) | Deputy managing director (co-founder) | Husband and Wife |
| HH | Managing director (founder) | Marketing Manager | Father and Son |

Please note that fictional names are provided for the companies to disguise their identities for confidentiality reason.

## 3.4 Data Collection Techniques

In-depth semi-structured interviews were adopted as the major means of data collection. Given that I was beginning the investigation with a fairly clear focus, rather than a general notion of the research area, the semi-structured rather than unstructured interview approach was adopted, so that the more specific issues could be addressed (Bryman and Bell 2007). Semi-structured interviews are also less likely time consuming than unstructured interviews which may last several hours. The semi-structured interviewed allowed me to direct the interview and the interviewee responds to the questions of the research rather than give the interviewee lead questions and then allow him/her to respond freely about issues in relation to the research area (Easterby-Smith *et al.* 2002; Ghauri and Gronhaug 2005; Robson 2002). The semi-structured interviews also provided me with the flexibility to ask questions in a standard manner when the interviewees were reactive or occupied in irrelevant discussions, and to alter the order of questions to probe freely into details subsequent to the interviewees' responses (Yeung 1995). Moreover, given that I was examining multiple organisations it was likely that some structure in interview will be useful in order to ensure cross-case comparability (Bryman and Bell 2007). However, at the same time, and as expressed above, my interview approach permitted – and indeed encouraged – the respondent to freely express his/her relevant thoughts and feelings.

As with most semi-structured approaches, I began with a list of themes (Appendix 20) and questions (the predetermined interview guide: Appendix 21) to be covered which help to ensure that the interviewer will cover all the major issues under investigation (Bryman and Bell 2007; Saunders *et al.* 2003). The draft of an interview guide had been prepared and was pre-tested as a pilot study. This test checked the respondent's understanding of the research problem and interview questions. After this pilot study, where the research problems and the interview guide questions were presented to three respondents, and they also answered the questions and commented on their understanding of them, the final draft of the interview guide questions had been prepared (Ghauri and Gronhaug 2005). This list was modified as the interviews progressed.

In practice my approach ensured my overarching themes/concerns were addressed while simultaneously allowing time for the probing and uncovering of respondent conceptions towards the issue under investigation. Pursuing a survey-based approach replete with a closed set of questions for quantitative analysis was, in my opinion, plainly inadequate for the type of research aims being addressed. Even a semi-rigid, ‘Likert-scale’ based method would have placed the project at greater risk of ‘missing’ the underlying feelings and attitudes through its over-imposition of categories and category relationships drawn from a body of research as yet under developed. Again, this lack of prior theory and explicit testable hypotheses meant that using a relatively open, flexible methodology based on open-ended interview questions allowing for sufficient respondent elaboration and self-expression best fitted with my aims and objectives.

Repeat interviews were conducted face-to-face and – especially during the latter stages of the research process – over the telephone. Face-to-face interviews are important for this study to enable the interviewer to interact with the interviewees responsively, and to observe and identify their personal attributes. This is especially the case in the Thai cultural context due to the high context nature of Thai communication (e.g. Mead and Andrews, 2009). In Thailand, evidence from the cross cultural management literature suggests that of the many communicated messages which people exchange, a larger proportion are communicated non-verbally than is the case in most Western societies. Moreover, some of the most crucial messages may be given silently, such as certain kinds of approval, affection, discomfort, thanks, apology, and disagreement (Holmes and Tangtongtavy 1997; Nimanandh and Andrews 2009). Therefore, it is particularly important in this context to observe the non-verbal communication in face-to-face in order to complement with (verbal) data received from interviews. Direct, non-participant observation also served as an important source of evidence in this research for the same culturally-derived reason.

I also made notes throughout the process of this research. This helped me to develop ideas and thoughts concerning the relationship between and among the data as it was being collected and analysed – and also when writing the literature review it help me to synthesise the disparate section together. Usually I would write notes into my laptop on an *ad hoc* basis and then review my notes at the end of each day. Sometimes these were augmented by handwritten notes that I had made – for example when travelling on after an unexpected meeting/encounter both with my respondents and supervisor/research colleagues. These would then be typed into my laptop at a later stage as soon as possible.

In addition to primary data collection, this research collected information from various secondary sources, particularly firm's documents, reports, and others from books, news papers, magazines, websites, were collected to provide further background material and to help triangulate the data.

## Language Issues

The interview guide questions were originally developed in English (Appendix 21). However, all of the interviews were conducted in Thai because all of the interviewees are Thai and their English skill is varied. Moreover, this research has main concern on the affect of risk perception characteristic of Thai societal culture on the internationalisation process of Thai SMEs. Schaffer and Riordan (2003) suggest that people may better reflect their cultural values when they respond in their native language. In order to gain similar understandings of the interview questions from each interviewee and receive the clearer answer from them, the interviews are better conducted in Thai. To ensure the interview guide questions prepared in English are equivalent in meaning to those Thai interviewees is necessarily issue for the trustworthiness of data received. Taking into account the issue of semantic equivalence, I used 'back-translation procedure' which was recommended by organisational scholars (e.g. Brislin *et al.* 1973; Schaffer and Riordan 2003).

The original English version of interview guide questions was translated into Thai by a bilingual expert from Language institute Chiang Mai University in Thailand, and then another blind translation from Thai to English was implemented by a different bilingual expert from Language institute Chiang Mai University in Thailand. Through comparison between the original and the back-translated version, I checked whether the original meaning of the interview guide questions can survive (Brislin 1986).

Although the style of writing and some words in the back-translated version were different from the original version, the meaning was still the same. For instance: What was firm's entry mode strategy in new international market(s)? versus What strategy did the company use to enter the new international markets?. What did you concern in order to conduct your international business? versus What were your main concerns in entering the international business world?. And some words for example: start versus begin, selection versus choice, the inception versus the start-up, proportion versus ratio, entry mode strategy versus strategy for entering market. It was agreed between myself and the bilingual expert that the differences did not affect the meaning of the interview guide questions as a whole. The overall meaning of the back-translated version remains the same as the original version.

## Interview Procedures

There were eight SMEs involved in the interviews for this research comprising a total of sixteen participants, two from each company. The list of potential SMEs was prepared by focusing on the founder/owner and manager who is responsible for the international activities of the SMEs. The potential respondents were contacted by letter and telephone to process agreement. The letters of introduction were sent to inform the potential respondents. The letters contain the purpose of the research, a short problem statement and the type of interested information in collecting. In the letters also mention how much time the interview will take, request permission to use a recorder and assure the respondent that all information the interviewer/researcher receive will be treated confidentially. Then, the letters were followed up by telephone calls to make an agreement. Once the agreement was made, then the confirmation and appointment were organised by telephone.

In the first round of interviews, I focused on the internationalisation process of the examined companies through the perceptions of the two key decision makers for each firm. These interviews traced the internationalisation process for each company back to its beginnings and allowed me to better understand the origin and development of the process for each firm in turn. Having recorded notable differences in the behaviour of these organisations when compared to all models of internationalisation process from extant theory, I then began to explore the antecedent variables – essentially the reasons behind – their process behaviour.

During the interviews, I was very careful to ensure questions were open ended and non-directive, being based simply on the range of potential factors drawn from the literature. However, as the interviews progressed it became increasingly clear from the emerging interview transcripts collated that the issue of risk was not only present at each stage but was also intuitively a factor that seemed to underpin and connect others. This feeling was reinforced and reiterated by a number of my respondents explicitly. This conviction was reinforced at the time of data analysis in that many terms utilised by respondents were either synonyms or were linked to feelings of risk and risk cognitions or behaviours. So rather than simply leave as is – implicit – I wished to explain this. Towards the end these impressions were also confirmed by respondents asked i.e. role of risk and risk perception.

Accordingly, I returned to the field and so far as was possible conducted a further round of interviews with a revised and modified set of questions. A total of thirty-two face-to-face interviews were conducted in rounds 1 and 2 together. These were supplemented by an additional thirteen additional discussions towards the end of the data collection process conducted over the telephone. Face to face interviews were conducted on a one-to-one basis and endured between 90 and 120 minutes for the first interview and not more than 90 minutes for the second interview. Saunders *et al.* (2003) suggest that interviews should be taken place at location which is convenient for respondents, where they feel comfortable and where the interview is unlikely to be disturbed. Consequently, the interviews in these two rounds were taken place at the respondents' office where was the respondents' choice.

The respondents were provided with a list of the interview themes before interview (Appendix 20). This provision should help on the level of information supplied from the respondent, and also promote validity and reliability by enabling the respondent to consider the information being requested and allowing them the opportunity to assemble supporting organisational documentation (Saunders *et al.* 2003).

According to University of Strathclyde's research regulation, a consent form was provided for each respondent to sign in order to obtain their official permission of participation in this research and assure them that all information they give will be treated with confidential and their anonymity will be respected at all times. At the start of interview, the introduction of the study and its purpose was introduced to orient the respondents. Moreover, confidentiality was reinforced and reassured to each respondent as to his/her identity.

Interviews were recorded (with the permission of the interviewees) and transcribed for coding and analysis. All information received from interviews was treated confidentially. For recording information, note taking together with audio-recording were used. It is widely accepted that audio-recording is a useful method (Ghauri and Gronhaug 2005). Audio-recording has many advantages such as allows interviewer to concentrate on questioning and listening, can re-listen to the interview, and accurate and unbiased record provided (Easterby-Smith *et al.* 2002). However, this recording may inhibit some interviewee's responses and reduce reliability (Ghauri and Gronhaug 2005). In order to overcome this circumstance, therefore interviewees were allowed to maintain control over the audio recorder. They had option to switch it off when a question that they were prepared to respond to was asked, but only if their words were not audio-recorded.

After analysing the responses from those two rounds of interview, I then conducted additional interviews in order to make clear some aspects that were open to interpretation from some respondents about their actions and the behaviour of their companies – this concerning risk perception as the determinant of their actions and their companies' responses. In this circumstance, thirteen interviews more were completed on the telephone. Consequently, forty-five interviews were conducted in total for this research.

## 3.5 Data Analysis

As stated earlier in section 3.3 (Sampling) above, the purpose of this research is not to claim that the findings are representative of the entire population of Thai SMEs, but to observe whether the findings were congruent with the theoretical framework. Therefore, the general strategy in analysing the cases was rely on the principal theoretical framework underpinning this research as the most preferred data analysis strategy for case study research (Yin 2003). Data analysis was aimed at revealing the internationalisation process of the examined SMEs and the cultural difference on perception of risk that influence on these SMEs internationalisation process. Upon uncovering such mechanism, the theoretical framework developed in Chapter 2 served as the research template to which findings were compared back and forth. This process allowed the researcher to explore the internationalisation process of the case firms and how cultural difference on perception of risk is crucial to the internationalisation process of each of the case firms.

Using template analysis as analytical strategy (King 2004), this involved categorising and unitising data through a stage process throughout the course of collection and analysis. I began with a broad set of questions covering the internationalisation process to solicit the potential factors moderating certain facets of this process (speed, mode of entry etc). These were progressively revised as respondents directed us to a more focused set of antecedents. Data was coded using both open and then axial coding to explore relationships, comparisons, patterns and contrasts among respondents' statements and opinions. This analytical strategy combines a deductive and an inductive approach to qualitative analysis in the sense that codes were predetermined and derived deductively by considering existing literature and theory before proceeding to collect and analyse data, and then amended or added to as data are collected and analysed (Saunders *et al.* 2003).

Within- and cross-case analyses of my SME companies were conducted. For each company analysis began with a detailed write-up with the objective of becoming familiar with each company as a stand-alone entity, and to let the unique patterns of each company's internationalisation development emerge through the rich description (Curran and Blackburn 2001; Eisenhardt 1989; Stake 1994). The theoretical framework of the study was referred to broadly in order to derive the themes and constructs from each of the companies, and for organising and contrasting the evidence to emerge. This allowed themes and constructs of each case to converge at a broad level with reference to the theoretical framework, and at the same time to diverge at each individual company. I then compared my companies based on the themes and constructs identified in the first round of interviews and then the follow-up discussions as well. Respondent interpretations and evidence were compared and contrasted in order to search for patterns in contrast and comparison.

The research then presented the findings from the company respondents. A thematic summary of the findings was provided firstly, followed by a cross-company analysis. Direct quotes from case informants were used to facilitate the analysis, as they are believed to best reflect the phenomena under investigation. The finding was organised and structured in a number of divergent ways to reach data exhaustion before the conclusion was finalised and reported. The finding from the case studies is presented in Chapter 4 and 5.

## Trustworthiness of Findings/Conclusions

A number of steps were undertaken to ensure the trustworthiness of the data collected and then analysed for this research – and for the conclusions drawn as a consequence. Firstly, I employed a variety of collection techniques throughout, ensuring that any conclusions drawn were based not on one but on converging tracks of evidence. By collecting separate information together, a fuller and richer picture of the firm's experience is built (Collis and Hussey 2003). These data were consulted to corroborate and argument evidence gained from the interviews in the formulation of converging lines of investigation.

Interviews formed my major collection method but were substantially corroborated throughout the process by both direct observation of respondents, their non-verbal communication and behaviour, and also through non obtrusive documentation. In this way, I was able to triangulate my findings and, again, be more confident in the validity of my data interpretation

Secondly, I was careful to maintain a chain of evidence throughout comprised of my interview transcripts, diary notes and written observations – as well as documents – in order to make my collection and analysis process as transparent as possible. The main principle behind this strategy was to reveal how the derivation of evidences led to research conclusions (Yin 2003). Following this suggestion, I analysed each case in a historical and retrospective manner by tracing each firm's internationalisation development chronologically from its early beginning.

Thirdly, I was as meticulous as I could be in my data management procedures. All transcripts were transcribed verbatim and in their entirety. Where audio-recording was not possible I ensured that my interview notes were written up in full detail as soon as possible afterwards. Documents and diary notes/thoughts were collated and maintained throughout and were referred to continuously.

Finally, in order to further reduce the possibility of my own biases impacting on the objectivity of my findings, I tried throughout the entire data collection and analysis process to be consciously aware of my thoughts and actions. In this way, I sought in minimise the premature closure of my category codes and conclusions.

# Chapter 4
# Results & Discussion Part I
# Internationalisation Process

In order to present my findings – and ensuing discussion - in the most clear and meaningful way, I have structured the results and discussion chapter in line with the focus of my overarching research objectives. In this way, I shall explore, firstly, the nature of the internationalisation process undertaken by my case SMEs and then follow this by identifying and then discussing the major determinants – to include individually and culturally-derived risk perception - in the process

This chapter (Chapter 4) will delineate and expand upon the first objective, i.e. the process of internationalisation as experienced by the eight selected case SMEs. Chapter 5 below then discussed specifically the role of the underlying determinants. In this chapter, I shall overview the internationalisation process of my sample companies, comparing and contrasting results. I then draw these summaries into an explanatory diagram and discuss in terms of prior theory – specifically the extent to which prior models 'fit' with the reported experiences of these Thai organisations.

## 4.1 Internationalisation Process Outline

This section begins by summarising my case companies' internationalisation process trajectories (for additional, case-specific information please refer to Appendix 22). These findings are then related back to the relevant theory in order to ascertain both the applicability of existing theories – particularly i) the process of internationalisation as a stage affair and ii) born global theory – and then to highlight points of both similarity and of divergence/deficiency.

Please note that I use pseudonyms throughout to protect my examined companies' confidentiality.

Table 4-1: Summary of the Internationalisation Patterns of the Companies

| Company | Year Founded | Year initial Internationalisation | International sales at least 25% of total sales within three years of start-up | Proportion of Present International Sales (percentage) | Initial Foreign Markets | Present Foreign Markets | Initial Entry mode strategy | Present Entry mode strategy | Expansion beyond export |
|---|---|---|---|---|---|---|---|---|---|
| AA | 1995 | 1995 | Yes | 100 | France, Italy, Spain | Europe* and Asia | Indirect export | Direct export | No |
| BB | 2004 | 2004 | Yes | 70 | USA, Canada | North America*, Asia*, Europe | Indirect export | Direct and Indirect export | No |
| CC | 1996 | 1998 | Yes | 90 | Japan | Asia (Japan*), Europe, Australia, USA | Indirect export | Direct export | No |
| DD | 1981 | 1988 | No | 45 | UK | Europe*, Australia, USA, Asia | Indirect export | Direct and Indirect export | No |
| EE | 1987 | 1988 | Yes | 90 | Japan | USA*, UK*, Asia | Indirect export | Direct and Indirect export | No |
| FF | 1989 | 1989 | Yes | 90 | UK, France, The Netherland | USA*, Europe (UK*) | Indirect export | Direct and Indirect export | No |
| GG | 2003 | 2003 | Yes | 90 | UK, France | Europe*, Australia, Russia | Direct export | Direct export | No |
| HH | 1997 | 1998 | Yes | 60 | USA | Europe*, USA, Asia | Indirect export | Direct and Indirect export | No |

*Dominant international markets

### 4.1.1 Initial Internationalisation & Current Situation

Based on my findings the examined SMEs can be classified into two distinct groups. The first group is SMEs which internationalise from their inception. The second group is SMEs which established themselves domestically and only some time later developed their business to the international marketplace.

In the first group, three of the examined SMEs have been involved in international market from the inception of their business. Within this group, one firm has engaged in international market exclusively from its inception. The other two firms began concurrently serving both domestic and international markets together. In the second group, five of the examined SMEs initially engaged in domestic market and later developed their business to involve in international market. Nevertheless, most of these examined SMEs internationalised shortly after their start-up. There is one firm which internationalised in the first year of inception, two firms internationalised in the second year of the start-up and one firm internationalised in the third year of the beginning of operation. However, one examined SME had long been established in domestic market before started to engage in international market, only 'internationalising' in its eighth year of operation.

All of my SMEs now depend heavily on their international markets because the majority of their sales come from international sales. Seven out of eight SMEs in the sample achieved international sales of at least 30% of total sales within three years of their inception. At present, one firm in this research serves only international market which is 100% of its sales come from international market. The rest of them serve both domestic and international market. Most of the latter group (six out of seven SMEs) receive their international sales at least 60% of total sales. Four of them gain 90% of their total sales from international sales. The lowest current proportion of international sales for the examined SMEs is 45% of total sales which is only one firm.

At first glance, then, it appears that all eight companies – and the sixteen decision-makers involved – pursued a rigorous and active international market development strategy from a very early point in their respective histories. On closer inspection, however, the underlying process of internationalisation is quite different. To begin with, none of the eight different companies – through their decision-making managerial pairs – actively sought out international customers in any conscious sense i.e. through anything that they actually did or were prepared to do. However, of the eight, three of the companies' decision-makers had decided that they would set up a business selling their handicraft goods to customers in international market and that *if* a international market customer come to buy then so much the better.

As it turned out, the three companies all received enquiries from customers based abroad within a relatively short timeframe, i.e. from 'inception'. The decision to be open to international orders seemed to make them responsive and quick to embrace international market customers. However, they did not actually go looking for them as managing director from company AA expressed it:

"*because we already know in our minds we want to do business with customer from abroad not just Thailand so when they come we are ready to do this we already have idea of what we must to do....if we not discuss about this and this possibility before, it will take us long time. I think to learn what we have to do and to think about to do business with them and to send to foreign country.....*"

So in actual fact the process of 'internationalisation' was a purely reactive – as opposed to proactive - one for all eight of my examined SMEs.

### *Markets Served*

The majority of the examined SMEs started their internationalisation in European countries such as UK and France. The second most common initial international market for the examined SMEs is USA (two firms) and Japan (two firms). Their international markets were expanded to many countries across the world. At present, the majority of their international markets are found in European countries, adding together with USA, Australia, and Asian countries such as Japan, The Middle East countries, Malaysia, and Singapore. However, as noted above and discussed more fully later, none the examined SMEs actually 'selects' its markets in any proactive sense – they simply serve customers as they receive orders, irrespective of geographical origin.

### *Entry mode*

My data shows that exporting is the only method by which the examined SMEs have engaged in their internationalisation activities. One of examined SMEs conducted direct export for its initial international market involvement. The other seven SMEs engaged in their international market by employing indirect export. Their initial foreign customers were not only buying agent but also overseas retailer and wholesaler and came to them and bought their products for their own export. After they have continued to involve in international market, they adjusted their export activity and started to employ direct export for their clients in international markets.

### *Role of International Trade Fair*

Importantly, all of the examined firms participate in international trade fairs. These events were important in encouraging all firms to pursue international orders – specifically via government-backed infrastructure, facilities and contacts to get them started. They then conduct direct export for their international customers from the orders they receive from international trade fair. At present, five examined SMEs employ both direct and indirect export in order to serve their customers in overseas markets. Other three SMEs currently use only direct export in order to deal with their international markets.

### *Internationalisation Process Development*

None of the SMEs examined in this study has ever employed any international entry mode other than export and none of the SMEs in this research have ever sought to develop their internationalisation process further than export. They simply desist from any further internationalisation process – specifically 'establishment chain' – activity at the exporting mode. They do not intend to make investment in overseas market, neither overseas sale subsidiary nor production, and also do not provide any franchise or licensing for international customer. All of the examined SMEs would like to maintain and continue their export business and do not have any plan to further their commitment beyond export operation. They would like to improve their export business, find more customers and expand their market, and get stronger in their export status.

These statements above hold true for all companies examined irrespective of markets served, start-up method or the type of exporting in which the company is currently engaged.

## 4.2 Discussion

### *Process and Pace – The Stages of Internationalisation*

As a whole stage models of internationalisation suggest that internationalisation is a gradual, incremental/sequential process in which firms *gradually increase their involvement in the internationalisation process*. Processually then they progress through indirect/direct exporting (or, indeed, from indirect to direct exporting) towards more involvement/investment in a strategic alliance (typically in the form of a joint venture which they progressively 'buy up') and ending up as a wholly-owned subsidiary. These theorists suggest that firms internationalise through an *orderly growth process in* *incremental stages*. Furthermore, firms tend to become incrementally international long after they have been established domestically (for relevant theory see e.g. Johanson and Wiedersheim-Paul 1975; Johanson and Vahlne 1977, 1990; Biley and Tesar 1977; Cavusgil 1980; Reid 1981; Czinkota 1982).

However, this international development process expounded by such stage model theories is inconsistent with the reported experiences of the sample companies in this research. The examined SMEs do not follow – fully – the stage models process, they do not increase their degree of internationalisation by following the traditional pattern of internationalisation proposed by the stage models of internationalisation (Johanson and Wiedersheim-Paul 1975; Johanson and Vahlne 1977, 1990; Biley and Tesar 1977; Cavusgil 1980; Reid 1981; Czinkota 1982). In short, they do not progress in a stepwise manner through stages of increasing involvement/commitment in international market proposed by the original stage models. They engage in the initial, the preliminary method only i.e. exporting. And although, arguably, they progress from indirect to direct exporting then stop there with no intention to go any further at all whatever the reason. Within the original sequence of internationalisation framework proposed by Johanson and Wiedersheim-Paul (1975), of the four-steps, only steps one and two are ever even considered by Thai SMEs from my sample. Steps three and four are simply considered beyond the scope of their thoughts, strategy and ambitions and, effectively, no-applicable. Against the later I-model drawn from Andersen (1993) and Knight and Cavusgil (1996) – among others – which involves five discrete stages, my SMEs again stay rooted in stages one and two ('domestic marketing' and 'pre-exporting' only). They do not even really go so far as to reach stage three ('experimental involvement') because this stipulates adhering to selection of 'psychologically close markets' which for my sample does not apply. The following two stages – 'active-' and 'committed-' involvement – are quite obviously unthinkable to my participant founders/managers. Of course, one must always bear in mind, as Buckley and Chapman (1997) note, that these stage models were never really intended for application in the broadest sense in any case – nor indeed for strict application to small size companies (Ruzzier *et al.* 2006).

Furthermore, my findings illustrate that seven out of eight case firms are accelerated to involve in international market, they do not slowly build their way into the international market. This appears to contradict traditional studied on the gradual incremental internationalisation of the stage models (e.g. Johanson and Wiedersheim-Paul 1975; Johansson and Vahlne 1977, 1990; Cavusgil 1980; Czinkota 1982). They are becoming international at their inception or begin shortly thereafter.

## *The Born-Global Perspective*

On the face of it, then, the circumstances surrounding the sample SMEs in this study can be better explained by the born global perspective (e.g. McDougall *et al.* 1994; Oviatt and McDougall 1994, 1995; Knight and Cavusgil 1996; Madsen and Servais 1997; Rennie 1993). Several different criteria have been used to define the concept in empirical terms of born global firm (e.g. Rennie 1993; Oviatt and McDougall 1994; Knight and Cavusgil 1996; Andersson and Wictor 2003). This present research uses the definition from McKinsey & Co. (Rennie 1993), one that was subsequently modified by Oviatt and McDougall (1994) and Knight and Cavusgil (1996). This relatively narrow conception defines a born global as *"a firm that has achieved international sales of at least 25% of total sales within 3 years of its inception"*. This definition is widely used in the empirical research on born global such as Andersson and Wictor (2003), Andersson *et al.* (2006), Harveston *et al.* (2000), and Knight and Cavusgil (1996).

Findings show that seven out of eight examined SMEs achieved international sales of at least 30% of total sales within three years of their inception. According to born global definition used in this research, these examined SMEs meet the criteria. As a result, they can be classified – broadly speaking – as born global firms.

More precisely, instead of establishing themselves in domestic market first and then start to move abroad, three of SMEs in the sample has engaged in international market from their inception. These SMEs stepped over the initial stage and got into international market from the beginning of their business. This leapfrogging cannot be said to follow a pattern of gradual incremental steps as proposed by the stage models (Johanson and Wiedersheim-Paul 1975; Johanson and Vahlne 1977, 1990; Biley and Tesar 1977; Cavusgil 1980; Reid 1981; Czinkota 1982). However, as noted earlier it does agree with the assumptions proposed by the Born Global approach.

In a similar manner, or the examined SMEs which started their business *domestically* most of them, four out of five SMEs, also did not internationalise in gradually, incremental manner as proposed by the stage models. They do not become incrementally international long after they have been established domestically. Instead, they are accelerated in term of international market involvement. These firms become international shortly after they established domestically, within three years of their inception.

One of the examined SMEs had long focused on only domestic market before become international. However, even this examined SME also does not conform to the incremental stage models, because although this examined SME had long established domestically, it suddenly internationalised rapidly after its first international involvement. This examined SME involved in its initial international market at the eighth year of the start-up and gained 25% of total sales from international sales. Currently, it achieves international sales at 45% of total sales. Accordingly, it can be better categorised as born-again global firm (Bell *et al.* 2001, 2003). According to Bell *et al.* (2001, 2003), born-again global firm is the firm that has internationalised rapidly after a long period during which they focused on the domestic market, typically within 2-5 years of their first international involvement. Nevertheless, the born-again global conceptualisation has less emphasis on the pattern and process of internationalisation experienced by the firm. Like born global perspective, it only suggests the notion about the speed of international involvement.

In this way, the limited applicability of the 'born global' perspective needs to be kept in mind. It will be remembered that this perspective has as its main concern the speed of a firm's international involvement. It places less emphasis on the *method* of the internationalisation process. Furthermore, the born global perspective lacks description on the *progress* of the internationalisation process. It also has proposed neither initial international entry mode strategy nor path of the process of increasing involvement in international operations to be followed by the firm in their category. In summary, the born global perspective can only explain the speed or pace of the examined SMEs internationalisation, but not the development of firms on the process of their internationalisation.

However, whether the examined SMEs can be classified as born global firm or not, they do *not* speed their international market involvement by themselves. Their speed of internationalisation is determined by their customers since the examined SMEs wait for customers to approach by themselves and take them to international market. They may not internationalise at all if they have no customers approach by themselves. This will be discussed further in section 5.2.

## *International Markets Served*

At first sight my findings indicate that of the examined SMEs all of them started their internationalisation process in a country where both psychically and geographically distant from Thailand. At first sight these findings appear to indicate a comfort on the part of my case companies with elevated levels of psychic and cultural distance regarding markets served e.g. to European countries and USA without even undergoing extensive initial research beforehand. This evidence is the same as the study of internationalisation in Malaysian furniture firms (Andersson *et al.* 2006). Their initial international market is including Australia, USA, UK, Japan, and Korea.

My findings also appear to be indicative of low risk-aversion behaviour, indeed to denote rather an embracement of risk. This stands in clear and direct contradiction to the assumptions of relevant theory (e.g. Johanson and Wiedersheim-Paul 1975; Johanson and Vahlne 2009, 1977, 1990; Bilkey and Tesar 1977; Cavusgil 1980; Czinkota 1982).

However, as previously noted this data must be taken with caution. In reality these markets were not proactively selected as such at all. On the contrary, all companies adopted – to greater or lesser degrees – a predominantly passive, reactive approach to sales development, serving customer orders as they arrived. In this sense, the country served by the buying agent, wholesaler, or retailer was really only a detail to our case organisations. This is also consistent with the study of Andersson *et al.* (2006) who found that the finding target markets of their Malaysian furniture firms is a reactive process. The companies were frequently contacted by buyers/agents, rather than the reverse. They did not perform a thorough analysis of the markets that they were to enter.

Importantly, it suggests that a simple look at the seeing distance on paper between home and host country environments regarding markets served as an indication of risk comfort needs to be taken with caution. Specifically, the data about psychic and geographical distance as a guide can be deceptive and misleading. In this research, to gain an accurate and more refined picture of the company intentions and behaviour with regard to market 'selection', it is necessary to first be clear as to the process by which customers from foreign nations were acquired – particularly as to the extent to which this was achieved in a pro – or re-active manner.

## *Internationalisation Process Development*

Again, and for my mind most significantly, the findings highlight that there is no support for the notion that the examined SMEs progress systematically from export to other – more committed/involved - market entry modes. None of the examined SMEs expands their internationalisation process beyond exporting. All of the examined SMEs are involved in international markets by employing export and have never applied any other methods of internationalisation. They stop their process of internationalisation at the exporting operation and also have no future plan to expand their internationalisation process further than export. This is the same phenomenon which is found from the study of internationalisation in Malaysian furniture firms (Andersson *et al.* 2006). As a result, their internationalisation process is not followed an orderly growth process in incremental stages of U-model or I-model (e.g. Johanson and Wiedersheim-Paul 1975; Johanson and Vahlne 1977, 1990; Cavusgil 1980).

Nevertheless, all of the examined SMEs do demonstrate an increasing commitment to the internationalisation process within their self-imposed boundaries of operation i.e. from domestic or indirect exporting as far as direct, self-managed exporting. However, this is manifest by their expansion into new export markets, rather than by higher levels of investment in existing overseas markets. In this respect, the firms' behaviour is consistent with I-models proposed by Bilkey and Tesar (1977), Cavusgil (1980), and Czinkota (1982) which have much less rigid view of internationalisation as a systematic 'establishment chain' process. I-models' less emphasis is placed on the development of alternative market entry modes. Rather, these stage models underline companies' increased dependence on exports and greater commitment to a growing number of foreign markets. However, there is very limited support for the view that firms internationalise in gradual, incremental steps, and no evidence for the assumption of development/progression into other more involved entry modes over time. Moreover, evidence from my sample seems to question the assumptions made by scholars namely that as managers embark upon the process of tentative internationalisation their attitudes and behaviours towards the perceived risks and difficulties involved change in favour of a more positive and relaxed approach to further commitment (Johanson and Wiedersheim-Paul 1975; Johanson and Vahlne 1977, 1990). For while, for my sample, this seems to hold true up until the point of direct exporting it does not apply beyond this.

In summary, the examined SMEs do not increase their degree of internationalisation by fully following the pattern of internationalisation proposed by the stage models of internationalisation (Johanson and Wiedersheim-Paul 1975; Johanson and Vahlne 1977, 1990; Biley and Tesar 1977; Cavusgil 1980; Reid 1981; Czinkota 1982). They do not progress in a stepwise manner through stages of increasing involvement/commitment in international market proposed by the original stage models. They engage only in the preliminary method i.e. exporting, and have no intention to go any further. Furthermore, the examined SMEs started their internationalisation process in a country where both psychically and geographically distant from Thailand which is inconsistent with the concept of 'psychic distance' between home and target markets which appears in incremental internationalisation process (e.g. Johanson and Wiedersheim-Paul 1975; Johanson and Vahlne 2009, 1977, 1990; Cavusgil 1980; Czinkota 1982). Although most of the examined SMEs have rapid internationalisation and can be classified as 'born global' (e.g. Andersson and Wictor 2003; Knight and Cavusgil 1996), they do not speed their internationalisation by themselves. Rather, their speed of internationalisation is determined by their customers because the customers come to approach by themselves and take the firms to international markets.

Despite the wide and continuing criticisms levelled against the founding stage models, a great deal of research corroborates their basic validity even in differing contexts (e.g. Fillis 2004). My research here appears to add to these critiques – but not so much towards the fundamental assumption of stage progression itself but rather that due to contextual/cultural dissimilarity SMEs in differing environments may hold to a differing notion of progression – both in terms of degree and of extent.

# Chapter 5
# Results & Discussion Part II
# Determining Factors Behind Internationalisation Process Behaviour

This chapter will overview the determining factors behind the process outlined i.e. the reasons for the way and extent to which all my companies internationalised – specifically as expressed by our sample respondents after depth-probing.

This is presented as a two-stage process, capturing as far as possible the role and influence of the relevant factors on respondents' internationalisation process behaviour. My first task was to capture, compare and contrast respondents' stated initial reasons for their internationalisation process behaviour. This – as will be seen below – was conceived due to a wide number of factors. These interviews, although semi-structured in design, allowed respondents to express their answer freely as well.

My second task was to probe respondents explicitly as to the underlying reasons behind the actual role of their internationalisation behaviour, focusing on explaining in more depth/detail the major initial reasons cited in the first round of interviews – particularly in the light of emerging patterns I wished to clarify and investigate. Attitudes towards risk and uncertainty avoidance as a potential cause/factor/issue were not emphasised over any other. Given that the expected influence of culturally-driven perceptions and conceptions is often at the subconscious level we were aware from the outset that the stated factors of respondents needed to be approached with both sensitivity and caution.

## 5.1 Determining Factors (Initial Responses)

In the interests of clarity, I have categorised responses my first round of responses into the relevant stages/facets of the internationalisation process and as derived from the literature above. As described above, these concern respondents *initially stated reasons* for the internationalisation behaviour of their respective SMEs (for details please refer to Appendix 23 and 24).

### 5.1.1 Nature of the Internationalisation Decision

A crucial first step to start engaging in international market is making the initial decision to internationalise. The findings show that only three of the examined SMEs (Company AA, BB, and GG) proactively made this decision, one that was made from their inception. These examined SMEs perceived a large opportunity in engaging in international markets, as typified in the following representative quotes.

Company AA (Deputy managing director): *"We attempted to conduct exporting from the beginning of our business. There is demand for mulberry paper products in international markets and there were not many local competitors conducting export for this kind of products."*

Company BB (Marketing manager): *"Our original idea was only we wanted to do business with foreign customers. I did not mean foreign tourist. I meant overseas market. I thought overseas market is big. There is lots of opportunity."*

Company GG (Managing director): *"We wanted to do export for our business since the beginning. At that time, it was opportunity because Thailand was probably at its peak in handicraft export. China, Vietnam, and India had not played in the market yet. Customers who search for handicraft products usually came to Thailand."*

The rest of the examined SMEs (five out of eight) did not proactively make decision to internationalise and had not really thought about engaging in international market possibilities. Instead, their decision to internationalise was motivated by their customers' demand i.e. that it was reactive. They started to engage in international market by receiving unsolicited orders for export from their customers. They had not make decision to engage with any international customers.

The managing director of company CC stated: *"It was started from Japanese retailers. They have retail shops in Japan. I did not realise that there were these group of customers. They came to order my products. This was the starting point."*

Similarly from the managing director of company FF: *"Initially, we had foreign customers came and bought our products. But, we did not export. They exported by themselves. We did not expect these foreign customers. We did not have any marketing activity."*

Table 5-1: The respondents' stated initial reason(s) for the decision to internationalise

| Company | Initial reason(s) for the decision to internationalise |
|---|---|
| AA | • High perceived demand<br>• Lack of domestic export competitor |
| BB | • Perceived opportunity<br>• High perceived demand |
| CC | • Reacted to its customers' demand |
| DD | • Reacted to its customers' demand |
| EE | • Reacted to its customers' demand |
| FF | • Reacted to its customers' demand |
| GG | • Dislike domestic commercial system<br>• Perceived opportunity |

| | |
|---|---|
| | • High perceived demand<br>• Lack of international competitor |
| HH | • Reacted to its customers' demand |

### 5.1.2 International Markets Served

The findings show that none of the examined SMEs proactively selected their international market. In each case, the choice of international market for the examined SMEs was effectively taken by their customers. Their customers determined which markets were served and they react to their customers' decisions, exporting their products to countries where their customers' markets are located. The attitudes expressed are illustrated in the quotes below from three of my case SMEs:

Company BB (Managing director): *"We are not someone who makes decision about overseas markets or where our products will be sold. Our international customers have their markets where they manage to sell products."*

Company DD (General manager): *"We have not chosen our international market. Customers bought products from us. They have their own overseas market. We do not have to worry about the country where our products will be exported."*

Company HH (Marketing manager): *"We have never selected country for sale our products. Our customers have their market. They bought products from us and sell in their market. We do not select who or where we should sell."*

### 5.1.3 Choice of Export Entry Mode

The findings from Chapter 4 show that exporting is the *only* international entry mode strategy followed by the examined SMEs in all of their international markets. Moreover, most of the examined SMEs (five out of eight) did not proactively choose to conduct export as their international market entry mode. They did not consider any international entry mode strategy. They exported due to their customers' requirement. They started to receive unsolicited orders for export from their customers. Then, they respond to their customers and serve them. The following quotes illustrate this process.

Company DD (Managing director): *"It might because of the market. We had customers came to us by themselves and they bought our products. We did not have active marketing activity. However, we did not handle export. Customers bought our products and they managed export by themselves."*

Company HH (Marketing manager): *"It was started from we had some foreign buyers came to us. They started to buy our products for their own export. We did not have to handle export for them. We sold to them at Ex-factory price."*

Only three of the examined SMEs (Company AA, BB, and GG) proactively decided that they would like to engage in international market activity should the opportunity arise – and this was either via indirect or direct export. These firms also aim to engage in international market (from inception). Exporting was pursued as the most suitable international market entry mode under their condition. The major reasons expressed to me was that exporting was considered as being *easier* than other international market entry mode, as more feasible to conduct than any other, and having higher opportunity for them to succeed, as well as being economical and cost effective

Company AA (Deputy managing director): *"I think export is the easiest way to get into international market. Moreover, export was suitable for our capability. It did not require huge investment."*

Company BB (Marketing manager): *"export is possible for us to do. At least, we could produce our products here and waited for customer to come and buy them."*

Company GG (Deputy managing director): *"I think export has the highest opportunity. There are many customers in overseas markets."*

Table 5-2: The respondents' stated initial reason(s) for the choice of export entry mode

| Company | Initial reason(s) for the choice of export entry mode |
|---|---|
| AA | • Export is considered the easiest method |
| BB | • Exporting perceived as only possible method |
| CC | • Reacted to customers' requirement to import |
| DD | • Reacted to customers' requirement to import |
| EE | • Reacted to customers' requirement to import |
| FF | • Reacted to customers' requirement to import |
| GG | • Export has the highest opportunity |
| HH | • Reacted to customers' requirement to import |

### 5.1.4 Initial Export Process Management

Only company GG has managed its own export operations since the beginning of the firm's international involvement. The rest of the examined SMEs (seven out of eight) did not initially manage export by themselves from the beginning of their international involvement. They initially conducted exporting in the form of indirect export in order to serve their international market.

Their main reason cited was lack of knowledge about export activity. Managing their own export activity was beyond their understanding at that time. It was too difficult for them to do. Furthermore, some of the examined SMEs (three) stated that there was customers' requirement to manage their own export. In order to serve their customers, they followed their customers' requirement. Consequently, they did not have to handle export by themselves.

Company DD (General manager): *"We knew nothing about export. Our customers managed export for the products they bought. At that time, we did not think about manage our export. I thought this way was easy for us. We did not have to do anything more than we did before."*

(Managing director): *"We just did following customers' requirement. They had never asked us to handle export for them."*

Company EE (Business development director): *"It might be difficult. It was more than our knowledge. We were not ready at that time. We just started our business. We did not even involve with any export activity."*

Company FF (Managing director): *"We had not thought about managing our own export. We had no idea about how to manage export. We had not much understanding of export. We did not want to step over. We would like to do it step by step."*

(Marketing manager): *"We had not known how to manage export. Moreover, our customers did it by themselves. They had never asked us to handle export for them."*

Table 5-3: The respondents' stated initial reason(s) for the decision **not to** self-manage the export process from inception of firm's international market involvement

| Company | Initial reason(s) for the decision **not to** manage export process from inception of firm's international involvement |
|---|---|
| AA | • Very small<br>• Lack of knowledge |
| BB | • Followed customers' requirement |

| | |
|---|---|
| CC | • Lack of knowledge |
| DD | • Lack of knowledge<br>• Followed customers' requirement |
| EE | • Lack of knowledge<br>• Not ready<br>• Too difficult |
| FF | • Lack of knowledge/understanding<br>• Followed customers' requirement<br>• Risk over-extension |
| GG | Manage own export since the beginning of firm's international involvement |
| HH | • Lack of knowledge |

### 5.1.5 Self-management of Export Process: The International Trade Fair Participation Factor

As time go by, every examined SME progressively developed their capacity to manage their own export activity. This was motivated principally by the desire to participate in international trade fair. In international trade fair, customers normally do not handle export activity. Sellers are expected to manage export for their customers, except when it is customers' requirement to manage export of their products. In order to joint in international trade fair, the examined SMEs have to develop themselves and handle export activity for their customers.

Surprisingly, all of examined SMEs were not put-off by the potential challenges and risk involved in the usual progression from indirect exporting towards managing the process themselves. Their major concern was lack of knowledge and experience. Nonetheless, they were prepared to learn how to handle their export in order to participate in international trade fair. The self-management of export is considered the required way of dealing business with customers who trade in international trade fairs, as the following quotes illustrate:

Company AA (Deputy managing director): *"Because we joined international trade fair. We are supposed to manage our export. Every seller who participates in international trade fair normally do it, except customers request to do it by themselves."*

(Managing director): *"We were willing to do because we would like to be an exporter. Managing our own export would bring us a better image and trust from our customers because we can prove to them that we have standard and can handle our own export activity."*

Company CC (Managing director): *"Actually, we had not been interested in adjusting our export activity before. We adjusted our export activity because we joined in international trade fairs. In international trade fairs, customers generally do not deal with export activity. We had to adjust our way in order to do business with them."*

(General manager): *"It was some at the beginning. However, we prepared ourselves before we could do it. They had information and training organised for everyone who want to be exporter."*

Company GG (Deputy managing director): *"We have not waited for customers to come. We have exhibited in international trade fair since the beginning of business. Some sellers might have customers who come and buy their products and customers manage export by themselves, but we do not have this kind of customer."*

(Managing director): *"I thought it is common for exporting. We are exporter. So, we should manage our export by ourselves. They were some problems at the beginning but we could learn and improve."*

Table 5-4: The respondents' stated reason(s) for self-management of export

| Company | Initial reason(s) for self-management of export: International Trade Fair and Related Concerns/Worries |
|---|---|
| AA | • Participate in international trade fair<br>– No concern (Considered it a beneficial move) |
| BB | • Participate in international trade fair<br>– No concern (Didn't think of it) |
| CC | • Participate in international trade fair<br>– Few concerns (Lack of knowledge/experience) |
| DD | • Participate in international trade fair<br>– Few concerns |
| EE | • Participate in international trade fair<br>– No concern (General condition of international trade fair, other sellers also do it) |
| FF | • Participate in international trade fair<br>– Few concerns (No experience) |
| GG | • Participate in international trade fair<br>– Few concerns |
| HH | • Participate in international trade fair<br>– Few concerns (Lack of knowledge) |

### 5.1.6 Decision not to Progress Beyond Exporting Mode

None of my sample SMEs progressed along the internationalisation stage process any further than the exporting mode. Development of their international business any further than export is considered too difficult and risky for them to conduct. In order to progress into direct investment in their own subsidiary or plant or even strategic alliance it is also required high expense to invest. They cannot be confident that their investment will be worthwhile. This seems to support, on the face of it, prior research on the reasons why smaller companies – particularly SMEs – often hesitate before progressing beyond exporting. Therefore, they are satisfied with their export activity and do not desire to expand further than exporting. Their reasons given can be summarised as including a lack of confidence, small company size, lack of money, perceived difficulty levels, and lack of preparedness (see Table 5-5 for more detail). These are illustrated in the quotes below:

Company AA (Managing director): *"We have not thought about establishing sale subsidiary abroad or any investment abroad. We are happy with our current export activities. It is better worthwhile to operate domestically and sell our products abroad. Investment abroad is very difficult and too risky for us. We do not have enough money as well as capable men. Moreover, we do not want to ask for loan. We do not want to be in debt. If we stay in our country and we have some problems, they are always someone helping us. This is Thai style."*

Company EE (Managing director): *"We have to estimate our ability and know ourselves. Our capability and condition cannot go to that level. In order to do that it must be used a lot of money and it is high risk. We are not sure."*

(Business development director): *"I think we may not reach that stage. At present, we may not dare to expand beyond export. We are not confident. I think we are not that big. We are lack of readiness in many aspects."*

Company FF (Managing director): *"It is difficult. It may be more than our capability. I have never thought about it. We are not ready to move forward to that stage. I am not sure that we can go to that stage."*

(Marketing manager): *"We have not thought about further investment or move forwards more than export. It may not suitable for our products. Another thing, it must be used a lot of budget. I think it will not probably be worth for investment."*

Table 5-5: The respondents' stated initial reason(s) for the decision **not to** progress beyond exporting mode

| Company | Initial reason(s) the decision **not to** progress beyond exporting mode |
|---|---|
| AA | • Too difficult<br>• High risk<br>• Lack of resources<br>• Lack of capability<br>• Don't want to borrow money |
| BB | • Not necessary (small but already satisfied)<br>• Don't want to borrow money<br>• Don't want to build new team overseas |
| CC | • Investment may not be worth expense<br>• Don't want any more obligations |
| DD | • Too old<br>• Lack of trust in staff to manage alone<br>• Limited resources<br>• Very high risk<br>• Fear of losing capital |
| EE | • Lack of capability<br>• High expense<br>• High risk<br>• Lack of confidence<br>• Too small<br>• Lack of readiness |
| FF | • Beyond capability<br>• Not suitable for products<br>• High expense |

| | |
|---|---|
| | • Not enough courage |
| GG | • Too difficult<br>• Wish to proceed step by step<br>• Feel like dream<br>• Lack of resources<br>• Not enough courage<br>• Possibility of problems which cannot be handled |
| HH | • Wish to proceed step by step<br>• Desire for lowest risk strategy<br>• High expense<br>• Don't want to borrow money<br>• High risk<br>• Too difficult |

### 5.1.7 Summary of Findings

The findings show that there are many different respondents' initially stated reasons for the internationalisation process behaviour of their respective SMEs (the examined SMEs). This can be summarised in Table 5-6 below. The data in this table is organised in order from the most stated initial reasons to less stated initial reasons, and their frequencies are showed in brackets.

Table 5-6 Summaries of the initial reasons for the internationalisation process behaviour of the examined SMEs

| Internationalisation Process | Initial Reasons |
|---|---|
| Decision to internationalise | • Reacted to its customers' demand (5)<br>• High perceived demand (3) |

| | |
|---|---|
| | • Perceived opportunity (2)<br>• Lack of domestic export competitor (1)<br>• Lack of international competitor (1)<br>• Dislike domestic commercial system (1) |
| International Markets served | • Reacted to its customers' decisions (8) |
| Choice of Export Entry Mode | • Reacted to customers' requirement (5)<br>• Export is considered the easiest method (1)<br>• Export is possible to do (1)<br>• Export has the highest opportunity (1) |
| Decision **<u>not</u>** to self-manage the export process from inception of firm's international market involvement | • Followed customers' requirement (6)<br>• Lack of knowledge/understanding (6)<br>• Very small (1)<br>• Not ready (1)<br>• Too difficult (1)<br>• Risk over-extension (1) |
| Self-management of export | • Participate in international trade fair (8) |
| Decision **<u>not</u>** to progress beyond exporting mode | • High risk (4)<br>• Too difficult (3)<br>• High expense (3)<br>• Don't want to borrow money (3)<br>• Lack of resources (3)<br>• Lack of capability (3)<br>• Not enough courage (2)<br>• Wish to proceed step by step (2)<br>• Not necessary (1)<br>• Don't want to build new team overseas (1)<br>• Investment may not be worth expense (1)<br>• Don't want any more obligations (1) |

| | |
|---|---|
| | • Too old (1)<br>• Lack of trust in staff to manage alone (1)<br>• Fear of losing capital (1)<br>• Lack of confidence (1)<br>• Too small (1)<br>• Lack of readiness (1)<br>• Not suitable for products (1)<br>• Feel like dream (1)<br>• Possibility of problems which cannot be handled (1)<br>• Desire for lowest risk strategy (1) |

## 5.1.8 Discussion

The findings from the first round of interviews show that there are many initial reasons for internationalisation behaviour of the examined SMEs. According to literature review (Chapter 2, section 2.3.1), factors that influence internationalisation process can be classified into three categories which are 'push and pull' motives to internationalise (Bartlett 1991; Tatoglu *et al.* 2003), 'proactive and reactive' motivations (Johnston and Czinkota 1982; Leonidou 1989), and 'internal (firm-based) and external (environment-based)' drivers to internationalise the firm (Leonidou 1995; Pett *et al.* 2004).

From the 'push and pull' framework, the push factors are described as home country characteristics such as intense competitive pressures, small economic, and population growth, restrictive trade regulations that make the home country unattractive and push the firm to international markets. On the other hand, pull factors are attractive host country characteristics such as niche markets, market growth potential that pull the firm to international markets (Bartlett 1991; Tatoglu *et al.* 2003).

From the proactive versus reactive dichotomy, proactive motives denote the firm's interest in exploiting internal strengths or opportunities in overseas markets (e.g. possession of a competitive advantage, special management interest, and exclusive information on overseas markets), while reactive motives exemplify a response to organisational or environmental pressures (e.g. competitive movements, declining domestic sales and saturation of domestic market) (Johnston and Czinkota 1982; Leonidou 1989).

In the literature typically these two dichotomies (i.e. push vs. pull and proactive vs. reactive) have not been formally distinguished as such and instead have been incorporated into the wider classification of internal (firm-based) and external (environment-based) drivers to internationalise the firm (Leonidou 1995; Pett *et al.* 2004). Consequently, Table 5-7 classifies initial reasons for the examined SMEs internationalisation process behaviour into 'internal (firm-based) and external (environment-based)' drivers to internationalise (Leonidou 1995; Pett *et al.* 2004).

In most cases, the initial reasons can be classified as internal driver to internationalise as they are firm's characteristics/manners/perceptions. Nevertheless, it should be noted that one of the initial reasons - Possibility of problems which cannot be handled - can be classified as both internal and external driver to internationalise. This is due to problems can occur both internal and external to firm.

Please note that the data in Table 5-7 the data is organised in order from the most stated initial reasons to less stated initial reasons, and their frequencies are showed in brackets.

Table 5-7: Internal (firm-based) and External (environment-based) drivers to internationalise

| Internationalisation Process | Initial Reasons | Internationalisation Motive Dichotomies |
|---|---|---|
| Decision to internationalise | • Reacted to its customers' demand (5)<br>• High perceived demand (3)<br>• Perceived opportunity (2)<br>• Lack of domestic export competitor (1)<br>• Lack of international competitor (1)<br>• Dislike domestic commercial system (1) | • External driver (Reactive/Pull)<br>• External driver (Reactive/Pull)<br>• External driver (Reactive/Pull)<br>• External driver (Reactive/Push)<br>• External driver (Reactive/Pull)<br>• External driver (Reactive/Push) |
| International Markets served | • Reacted to its customers' decisions (8) | • External driver (Reactive/Pull) |
| Choice of Export Entry Mode | • Reacted to customers' requirement (5)<br>• Export is considered the easiest method (1)<br>• Export is possible to do (1)<br>• Export has the highest opportunity (1) | • External driver (Reactive/Pull)<br>• Internal driver (Reactive)<br>• Internal driver (Reactive)<br>• Internal driver (Reactive) |
| Decision **not** to self-manage the export process from | • Followed customers' requirement (6) | • External driver (Reactive/Pull) |

| | | |
|---|---|---|
| inception of firm's international market involvement | • Lack of knowledge/experience/understanding (6)<br>• Very small (1)<br>• Not ready (1)<br>• Too difficult (1)<br>• Risk over-extension (1) | • Internal driver (Reactive)<br>• Internal driver (Reactive)<br>• Internal driver (Reactive)<br>• Internal driver (Reactive)<br>• Internal driver (Reactive) |
| Self-management of export | • Participate in international trade fair (8) | • External driver (Reactive) |
| Decision **not** to progress beyond exporting mode | • High risk (4)<br>• Too difficult (3)<br>• High expense (3)<br>• Don't want to borrow money (3)<br>• Lack of resources (3)<br>• Lack of capability (3)<br>• Not enough courage (2)<br>• Wish to proceed step by step (2)<br>• Not necessary (1)<br>• Don't want to build new team overseas (1)<br>• Investment may not be worth expense (1)<br>• Don't want any more obligations (1)<br>• Too old (1) | • Internal driver (Reactive)<br>• Internal driver (Reactive)<br>• Internal driver (Reactive)<br>• Internal driver (Reactive)<br>• Internal driver (Reactive)<br>• Internal driver (Reactive)<br>• Internal driver (Reactive)<br>• Internal driver (Reactive)<br>• Internal driver (Reactive)<br>• Internal driver (Reactive)<br>• Internal driver (Reactive)<br>• Internal driver (Reactive)<br>• Internal driver (Reactive) |

| | | |
|---|---|---|
| | • Lack of trust in staff to manage alone (1)<br>• Fear of losing capital (1)<br>• Lack of confidence (1)<br>• Too small (1)<br>• Lack of readiness (1)<br>• Not suitable for products (1)<br>• Feel like dream (1)<br>• Possibility of problems which cannot be handled (1)<br>• Desire for lowest risk strategy (1) | • Internal driver (Reactive)<br>• Internal driver (Reactive)<br>• Internal driver (Reactive)<br>• Internal driver (Reactive)<br>• Internal driver (Reactive)<br>• Internal driver (Reactive)<br>• Internal driver (Reactive)<br>• Internal-External driver (Reactive)<br>• Internal driver (Reactive) |

# 5.2 Underlying Variables (Reasons)

In this section, I present the results of my follow-up - depth probe – interviews. It will be recalled that as the first round of interviews progressed an increasing number of references (initial reasons) for internationalisation behaviour of my examined SMEs were made to a few potential underlying variables. As the first round of interviews progressed and I began to note and draw inferences about the potential underlying variables, I noticed that almost each and every respondent was of similar potential underlying variables. These I eventually collated into three major determinants as will be shown below - namely risk perception, lack of knowledge/understanding, and lack of resources. Additionally, 'Market status' was identified as a fourth, although a relatively minor factor.

For clarity, I will discuss below how each of these three major determinants influenced the various facets of the internationalisation process i.e.

- Internationalisation decision
- International markets served
- Initial market entry mode
- Progress/Concerns re: management of export process
- Decisions not to progress beyond exporting

For each section I present the initial reasons given by respondents with the reasons they gave following our second round of interviews i.e. as per the three major determinants above, highlighting the evolution of my interpretations toward these three aggregate dimensions. In certain categories this will be summarised in a representative table.

## 5.2.1 Initial Internationalisation Engagement

In this section, I will group my respondents according to their initial stated internationalisation intentions, specifically whether they had proactively made the decision to engage with international customers or not. To recap, company cases AA, BB, and GG through their respective decision-makers, proactively decided to internationalise whereas the other five companies did not. Table 5-8 shows the reasons of decision to internationalise and decision to wait for customers from the respondents who represent company cases AA, BB, and GG which proactively made decision to internationalise.

### *5.2.1A Reasons of the decision to internationalise: Proactive – Company Cases AA, BB, and GG*

Table 5-8: Reasons of the decision to internationalise and decision to wait for customer: Company Cases AA, BB, and GG

| **Case SME** | **Initial Reasons (Round 1)** | **Underlying Variables (Round 2)** |
|---|---|---|
| AA | | |
| Decision to internationalise: | - High perceived demand<br>- Lack of domestic export competitor | - Market status<br>- Market status |
| Decision to await /react to orders rather than seek them | - do it ourselves too many things to learn, no support, we don't feel confident…not insecure | Risk perception |
| BB | | |
| Decision to internationalise: | - High perceived demand | - Market status |

| | | |
|---|---|---|
| Decision to await /react to orders rather than seek them | - Not worth the risk of the time and resources | Risk perception |
| GG | | |
| Decision to internationalise: | - Dislike of domestic business system<br>- High perceived demand<br>- Lack of international competitor | - Market status<br>- Market status<br>- Market status |
| Decision to await /react to orders rather than seek them | - Dislike of uncertainties involved | Risk perception |

For these three companies – and their six respective decision-makers – the decision to serve incoming international customers at the earliest *safe* opportunity was based on major reason concerning 'Market status' which stated as potentially large foreign market demand/scope, lack of competitors in foreign markets for their respective products, and in one case strongly negative perceptions of domestic market. These reasons are expressed in the representative quotes below:

Company AA (Managing director): *"Compare with international market, domestic market does not have much demand for mulberry paper product. I thought it has better chance to conduct export. International market is lots bigger and has much more demand than domestic market."*

Company AA (Deputy managing director) *"At that time, there were not many local manufacturers of mulberry paper product who conduct export. So, there were not many local competitors for exporting of this kind of product. We already have knowledge for production of mulberry paper. I thought it is not too hard for us to do, we should try."*

Company BB: (Managing director): *"I thought of nothing. I just did it. Anyway, our idea was we want to do business with customers in overseas market. Overseas market is very big. It has opportunity. Our market can be anywhere."*

Company GG (Deputy managing director): *"I don't like the domestic commercial system. It is complicated and tricky, especially the middlemen. This makes business difficult to do domestically. We cannot control of this kind of thing. So, we thought we should do business with international market because it more opportunity instead of here."*

Company GG (Managing director): *"There was lots of opportunity in overseas market. At that time, Thailand was very good in handicraft export. And there did not have strong competitors like China, Vietnam, and India. They had not yet gotten in the market. Everything was very good for handicraft export. If customers would like to buy handicraft products, they will choose from Thai manufacturers."*

***Decision to Await International Customer Orders***

Rather than taking concrete steps towards actually searching out customers in foreign markets, rather than going through any process of screening and targeting markets, all three companies chose to simply await international orders. When asked why this was the case all responses spoke of risk perception in the task. Representatives from company cases AA and GG spoke, respectively, as follows:

Company AA (Managing director): *"...maybe we (would) do things in the wrong way and lose our time and our money…it's more sure to do it with someone come to us, not us looking for them…"*

Company GG (Managing director): *"the way we do (now) we prefer because I think it's safer...yes much more safe than (if) we try to research or analyse the market we think we will serve…"*

### *5.2.1B Reasons to Internationalise: Reactive – Case Companies CC, DD, EE, FF, and HH*

This concerns company cases CC, DD, EE, FF, and HH i.e. those who did not proactively make decision to internationalise or to serve international markets/customers prior to enquiries being received. Their decision to internationalise and initial international engagement was initially motivated from their customers and they reacted to their customers' demand. Initial reasons given centred on the fact that an involvement in international markets was perceived as being too big, too difficult, too different to domestic markets, too far and too beyond current levels of knowledge and capability, understanding and experience. However, on probing further the underlying reason expressed by all managers involve about risk perception.

When asked to be explicit about risk and its relation to, for example the unknown, every one of my respondents stressed the underlying importance of this factor. Here the concern was with weighing up or balancing what the benefits might be with the costs of failure. Simply put, the strong feelings of lacking knowledge and understanding made any thought of developing the business involvement beyond borders, as one respondent put it, 'like a dreamland.' As the managing director of company FF put it, *"it just out of our mind….that something so different for us we never think it possible. Never think of possible might work…we…at back of our mind we sure we lose…not something we can do on our own…"*

The managing director of company AA expressed similar feelings: *"it (lack of knowledge) is big problem…(why?) yes we worry, we cannot compete with other companies in international market who know more…worry that if we fail and lose our investment and may hurt our whole business…*(NB *it was put to respondent that everyone at one time had lack of knowledge/experience but that this would surely be acquired as business progressed*)*…we don't like the risk for our size of company, it is too high for us to accept…for other businesses who compete abroad I cannot say but it think for small Thai company most think same as us…"*

## 5.2.2 International Markets Served

As described above (section 4.2 and 5.1.2), all respondents clearly stated that there was <u>no proactive decision</u> made concerning either market coverage or market selection. For all examined SMEs interviewed it was the *clients themselves* who initiated contact and approached the respective organisation for the purposes of product purchase. In this way, each of the companies adopted a reactive, largely passive approach to their customer search. This is important to note as, a priori, the profile of markets served among the eight cases utilised appear to be relatively adventurous and high risk – specifically in terms of psychic distance, cultural distance and – in most cases – geographical distance. However, the point here is that the markets served were in no case consciously chosen, it was the customers who, in effect, 'chose themselves' and the market from which they had emerged was of no import at all. As the marketing manager of company FF said:

*"…where the customers come from I know about this but we don't care. They come because our product is interesting for their market. And we just sell to them. Sometimes we don't ask where the market is."*

This was largely representative of all other company representatives' feelings. All of the respondents have never thought about any reasons to select their international markets because they did not select their international market by themselves. They did not even think about international market where they should serve. Their international markets served are come from their clients' offer and they react to that offer.

### 5.2.3 Choice of Export Entry Mode

This section concerns the rationale behind my cases' choice and consideration of exporting as the preferred mode of international market entry. Three cases here are explored – company AA, BB, and GG – i.e. those who proactively made decision to internationalise and to await the chance to export abroad. The initial reasons proffered by these respondents (discussed above in 5.1.3) for choosing exporting revolved around it being perceived to be the mode of international entry that was feasible, the easiest and the mode that used the least resources/investment.

Table 5-9: Reasons of the choice of export entry mode

| Case SME | Initial Reasons (Round 1) | Underlying Variables (Round 2) |
|---|---|---|
| AA | Export is the easiest | Lack of resources (distrust of adding more workers who might not be known relatives)<br><br>Risk perception |
| BB | Export is possible | Lack of resources (export chosen for least utilised resources and least amount that could be lost)<br><br>Risk perception |

| | | |
|---|---|---|
| GG | Export is most opportunity | Lack of resources (lack of perceived resources, worry about losing money)<br><br>Risk perception |

It will be noted that all respondents spoke of exporting as requiring the least and the most acceptable level of resource commitment. When probed further this was clearly the most important variable. The major concern among all three companies was protection of investment and avoidance of risk of damaging losses. As the managing director of company BB stated: *"when we started the company we hoped that we could export our products to abroad, not just Thailand. But shipping them from here is the only realistic choice. Actually, going into the market itself is not realistic because it is too expensive and too risky. "*

The three selected quotes below expand upon these feelings

Company AA (Managing director): *"In the beginning, we did not have many workers and budget to invest in the business. So, anything more than exporting would mean we need to hire more people quickly, people we don't know, no time to know. And exporting might be the best choice for us to do as it has the highest potential and suitable for our resources."*

Company BB (Marketing manager): *"We would like to do business with customers in international market. I thought export is the most suitable and possible way to conduct. It doesn't need high investment. We can try. If we're not success, it won't hurt us so much."*

Company GG (Managing director): *"At that time, Thailand was very good in handicraft export. We hadn't had many competitors like now. The management of export is not much different from domestic business. We also don't have to use much* *money in order to conduct export. So, we think export has the highest possibility and opportunity for us to get into overseas market."*

### 5.2.4 Decision not to Self-manage Export Process from Inception of firm's International Market Involvement

Only one of my eight cases – GG – chose to manage their own exporting process from their inception. The other seven used, initially, third parties until prompted by the possibility of government support via international trade fairs – and assistance to manage the process by themselves. So, this centres on the choice to progress from indirect through to direct exporting. To recap, the initial reasons of the decision not to self-manage the export process from inception of firm's international market involvement given by my respondents comprised concerns surrounding a lack of knowledge/experience, following customers' requirement, lack of readiness and perceived level of difficulty. However, on deeper probing of these surface level reasons seemed to stem from respondents underlying of three variables: risk perception, lack of knowledge/understanding, and lack of resources. This is summarised in Table 5-10, along with sample quotations to support my interpretation of the data

Table 5-10: Reasons of the decision **not** to self-manage the export process from inception of firm's international market involvement

| Case SME | Initial Reasons (Round 1) | Underlying Variables (Round 2) |
|---|---|---|
| AA | Very small<br>Lack of knowledge/experience | Lack of resources<br>Lack of knowledge/understanding<br><br>- Managing director: *"we don't have enough manpower, we don't want to dedicate them for this as then create a gap which needs to be filled. We cannot get staff who as good and who we can depend on and we can trust...this is our worry....about managing for ourself"* |
| BB | Followed customers' requirement | Lack of knowledge/understanding<br>Risk perception<br><br>- Marketing manager: *"it's too big step for us, like another world…not our world, different world which for us we don't know…about thing we don't know we not sure and better we stay what we know"* |

| | | |
|---|---|---|
| CC | Lack of knowledge | Lack of knowledge/understanding<br>Risk perception<br><br>- General manager: *"it's too big for us because we are small company so it far away from our ability…we don't accept some objective if we have no knowledge, it too much risk, we feel not comfortable"* |
| DD | Lack of knowledge<br>Followed customers' requirement | Lack of knowledge/understanding<br>Risk perception<br><br>- General manager: *"With customers they come and order, and we send, it is fine. We did not have any idea about export. Our customers managed it by themselves. It's just like our domestic sales. For abroad, we don't know and that make us be very careful..."* |
| EE | Lack of knowledge<br>Not ready<br>Too difficult | Lack of knowledge/understanding<br>Risk perception<br><br>- Managing director: *"we don't know so much about international markets, we want to focus in what we know we can do…what we sure we can do…the 'not sure' part is a risk, a* |

| | | |
|---|---|---|
| | | *gamble for us…for our understanding it much too difficult and so maybe if we try and we not success, we will lose our budget…we don't want that happen."* |
| FF | Lack of knowledge/understanding<br>Followed customers' requirement<br>Risk over-extension | Lack of knowledge/understanding<br>Risk perception<br><br>- Managing director: *"We would like to do step-by-step. International market is very big for us, we don't have knowledge, we had no idea about how to manage export, we don't want to do something we are not sure about. We don't like the uncertainty. Of course if we risk and we lose, it is very dangerous…"* |
| HH | Lack of knowledge | Lack of knowledge/understanding<br>Risk perception<br><br>- Managing director: *"I think it's our lack of knowledge, it's linked to not being unfamiliar. If it's familiar then we not so concerned with if we can do or not. Something we feel like very far, like we don't know, I think Thai business, the small businessman like me we don't like to risk when we don't know…."* |

### 5.2.5 Self-management of exports: The International Trade Fair Factor

All eight of my case companies, over time, progressed from the use of agents to managing their own exporting activities and process. During the initial round of interviews this had, at first, come as something of a surprise given their overall reticence towards the unfamiliar as regards international activity. What was also surprising was our respondents' express lack of any major concerns or worries in doing so. A prime – in fact by far the most relevant – factor cited for this change to self-management was the need to 'self-manage' in order to get the assistance of the government-organised International Trade Fairs (ITFs).

During the second round of interviews the actual import of the ITFs became a lot clearer – and, moreover, was fundamentally connected to their attitudes towards the risk involved. The deputy managing director of company AA stated:

*"...we progressed our export experience through the trade fairs we didn't worry so much, we feel like we have support and the environment to share ideas with other companies who same level as us...yes the experience from international trade fair make us feel more secure, like not so much risk...."*

Several other company representatives reiterated this underlying preoccupation with perceived risk, as per the following selected quotations:

Company DD (Managing director): *"when we saw them in same situation as us they can manage themselves when they join in international trade fair then we think 'if they can do it why not us?'. International trade fairs are supportive because if not I think many companies they not dare to risk. It's Thai style, they worry about so many things."*

Company FF (Managing director): *"we always worry but with international trade fair it help us some things; ok we still have some risk but I think the feeling that have* *someone help this make us more confident to learn and do by ourselves…if not then yes risk too much…"*

Company HH (Managing director): *"we worried but we knew what we had to do. I think we do anyway but international trade fair support, it like the psychological help to cross that barrier…it was a bit like we have someone look after us, maybe if not we not do so quick…we worry about unknown situation…."*

### 5.2.6 Decision not to Progress Beyond Exporting

The initial reasons given to me by my case company representatives as to why exactly they had no thought nor intention to move beyond exporting mode towards a more involved, hands-on engagement in their international markets was centred on a mix of reasons as per Table 5-5. These can be summarised as including: lack of resources, difficulty level, lack of capability, level of risk, fear of taking on a loan, satisfaction with current business exposure and lack of suitable manpower. Of my sixteen respondents more than half had initially cited concerns surrounding current/projected lack of resources and an unwillingness to borrow additional capital and take on any more financial obligations. Similarly, lack of experience and capability also featured strongly, either directly stated or involving a related concern such as 'being too old' or 'not trusting new staff beyond the current team. Risk was also a factor mentioned in the first round of interviews, usually alongside or as an adjunct to the reasons cited above.

However, on second round probing as to the relationships between the various factors previously cited by each respondent the emerging underlying variables can be classified in three main categories: risk perception, lack of knowledge/understanding, and lack of resources. Moreover, it became very clear in all cases that, in fact, the perception of elevated risk levels – i.e. to an uncomfortable degree – and the desire to avoid such risk-induced discomfort was the primary underlying variable that underlay each of the previous reasons expressed. This is summarised reasons for decision not to progress beyond exporting mode between Rounds 1 and 2, using company AA as a representative example in Table 5-11. (Also see Supporting Quotes on the decision not to progress beyond exporting mode: Company BB - HH in Appendix 25)

Table 5-11: Reasons of the decision **not** to progress beyond exporting mode: Company AA

| **Initial Reasons (Round 1)** | **Underlying Variables (Round 2)** |
|---|---|
| Too difficult, High risk | Lack of knowledge/understanding<br>Risk perception<br><br>- Deputy managing director: *"it's difficult, that is what we think, we don't have knowledge so…the unknown is what concerns us because it might be ok or it might not…it's not sure and I am not prepared to risk the business with another big step which maybe too far for us…"* |
| Lack of Resources | Lack of resources<br>Lack of knowledge/understanding<br>Risk perception<br><br>- Managing director: *"if we had more resources, if we bigger, we might worry less…but still worry about it, of course. With export we more have the control, but if invest directly in overseas market, we will lose control and then the unknown seems just too big for us to consider…if more investment maybe same thing, maybe* |

| | |
|---|---|
| | *we lose more…yes lack of knowledge and experience the main things…"* |
| Lack of Capability | Lack of knowledge/understanding<br>Risk perception<br><br>- Managing director: *"no we don't know this for sure but it's more we don't know the situation if we are capable or not…we don't know, we have no experience…and right now things ok already so we don't want to risk things go bad…"* |
| Fear of taking on loan | Risk perception<br><br>- Managing director: *"we feel we have more security for the business here in Thailand because we have friends and partners we can trust…but outside Thailand we don't have the relationship, we don't know the people…yes they may be good, honest to do the business…but we don't know…we not expect help or trust, it can never be the same as here in our own country…if there is a problem with debt then the uncertainty much bigger and we cannot predict what might happen… "* |

### 5.2.7 Summary of Findings

The findings from chapter 4 suggest that the existing internationalisation process theories neither fully predict nor fully explain the internationalisation process of the examined SMEs. Even though nearly all of the examined SMEs have quick initial internationalisation and can be classified as 'born global' firms (e.g. Andersson and Wictor 2003; Andersson *et al.* 2006; Knight and Cavusgil 1996; Oviatt and McDougall 1994), not one of the examined SMEs expands their internationalisation process further than exporting. The findings in this chapter show that although there are many differing and varied respondents' initially stated reasons for the internationalisation process behaviour of their respective SMEs (the examined SMEs), risk perception, lack of knowledge/understanding, and lack of resources are found to be the main underlying reasons for the internationalisation process behaviour of these companies. Market status is a reason only for the initial internalisation decision of the firms which proactively made decision to internationalise. However, all of the respondents have not considered any reasons regarding the selection of international market because they did not actually select the international market where they should serve.

Risk perception was the most expressed underlying reasons. In some cases, risk perception was expressed clearly and sometime expressed as a source of lack of knowledge/understanding, and/or lack of resources. As we can see in Figure 5-1, risk perception affected the internationalisation process behaviour of the examined SMEs in two ways i) it affected the internationalisation process behaviour of the examined SMEs *directly* – in the course of decision to internationalise, self-manage of exports, and decision not to progress beyond exporting and ii) *indirectly* through the conditions of lack of knowledge/understanding and/or lack of resources – in the course of the choice of export entry mode, decision not to self-manage the export process from inception of firm's international market involvement, and decision not to progress beyond exporting.

The following illustrative quotes support the direct affect of risk perception on the internationalisation process behaviour of the examined SMEs.

Decision to internationalise;

Company AA (Managing director): *"we don't like the risk for our size of company, it is too high for us to accept…for other businesses who compete abroad I cannot say but it think for small Thai company most think same as us…"*

Self-manage of exports;

Company FF (Managing director): *"we always worry but with international trade fair it help us some things; ok we still have some risk but I think the feeling that have someone help this make us more confident to learn and do by ourselves…if not then yes risk too much…"*

Decision not to progress beyond exporting;

Company CC (General manager): *"this is about risk, too much risk for us. It's much more risk than when we do business here because we don't really know anyone in international market to help us like we get help here with exports….the feeling we don't know situation, what will happen, is much more. It makes me worry, it not safe and I don't want we push too far and damage the trust people here put in us…"*

Company HH (Managing director): *"like I said, we like to keep to our plan and our strategy (is) step by step. Beyond exporting something we think too ambitious for us…risk is too high to take…"*

In the second approach, risk perception does not affect internationalisation process behaviour of the examined SMEs directly. The findings show that respondents expressed lack of knowledge/understanding, and/or lack of resources directly as the main stated underlying reasons. However, in nearly all cases the findings also show the evidence of risk perception together with these variables. Consequently, risk perception was apparent during analysis as representing a key link or pattern which drew the other factors together. The selected quotes below expand upon this approach.

The choice of export entry mode;
Company BB (Marketing manager): *"I thought export is the most suitable and possible way to conduct. It doesn't need high investment. We can try. If we're not success, it won't hurt us so much."*

Company GG (Managing director): *"The management of export is not much different from domestic business. We also don't have to use much money in order to conduct export. So, we think export has the highest possibility and opportunity for us to get into overseas market."*

Decision not to self-manage the export process from inception of firm's international market involvement;
Company CC (General manager): *"it's too big for us because we are small company so it far away from our ability…we don't accept some objective if we have no knowledge, it too much risk, we feel not comfortable"*

Company EE (Managing director): *"we don't know so much about international markets, we want to focus in what we know we can do…what we sure we can do…the 'not sure' part is a risk, a gamble for us…for our understanding it much too difficult and so maybe if we try and we not success, we will lose our budget…we don't want that happen."*

Decision not to progress beyond exporting;
Company AA (Managing director): *"no we don't know this for sure but it's more we don't know the situation if we are capable or not…we don't know, we have no experience…and right now things ok already so we don't want to risk things go bad…"*

Company GG (Deputy managing director): *"we have limited resource. We feel expansion something like joint venture or some other way not something we big enough to feel comfortable with. We don't want to borrow money, we don't want to be in situation where no one can help. It's too dangerous for us, if some big unexpected problems happen, maybe it will mean we have to close our business…"*

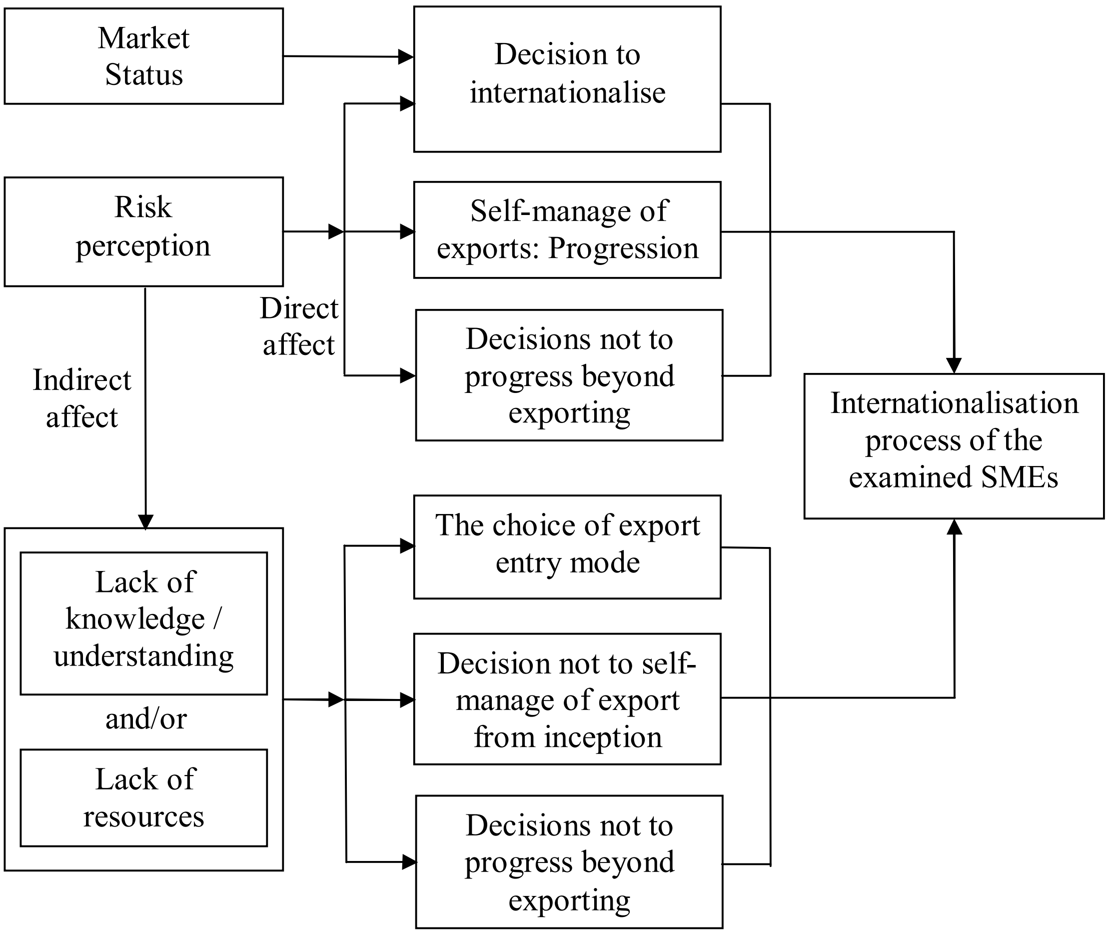


Figure 5-1: Factors affected internationalisation process behaviour of the examined SMEs

Furthermore, based on my data the effect of risk perception on the internationalisation process behaviour of the examined SMEs can be grouped into two different levels. Risk perception at the societal-culture level appears to affect the internationalisation process behaviour of the examined SMEs, in the overall reticence to progress beyond exporting. All of the examined SMEs have employed only export as their mode of involvement in international market and not one of them has developed their international market involvement further than exporting.

My findings also suggest that risk perception was also a prime factor at the level of individual personality, particularly in the differences expressed among respondent SME managers concerning i) the decision to serve international customers or not and ii) the pace of reaction to international customer orders and to some extent iii) the progression from indirect to direct exporting mode.

In addition, at the level of societal-culture derived risk attitudes, whether the SMEs proactively decided to internationalise or not and/or have rapid initial internationalisation process or not, *none* of them expressed an overall proactive approach to internationalise. In every case, it was the customers themselves who initiated contact and approached the examined SMEs for the purposes of product purchase. The risk perception of respondents inhibited their internationalisation behaviour by using proactive behavioural approach and decelerated their pace of initial internationalisation. I will now outline each of these categories in details.

## *The Decision to Internationalise (or not)*

On closer inspection, we can separate the examined SMEs according to individual level risk perception into two groups. The first group is the examined SMEs which did not make any proactive decision to internationalise, and the other is the examined SMEs which proactively made this decision.

The findings show that risk perception was the major reason, ten of my sixteen decision-makers – i.e. five from eight companies – did not even think of serving international markets at all. In the end, however, they started to engage in international market by receiving unsolicited orders for export from their customers. These examined SMEs showed what can be termed as a higher level of risk perception than the other six founders/managers (three companies). The international market involvement was considered too difficult and complicated for them. They perceived too risky condition in order to go into international market. Their decision to internationalise was initially motivated from their customers and they reacted to their customers' demand. However, they had not decided to internationalise until they had customers approach by themselves. So, they had to wait until customers give them opportunity to internationalise and bring them to international market.

Only three of the examined SMEs proactively decided to internationalise. They did not have to wait for motivation from customers in order to make the decision to internationalise. These examined SMEs decided that they wanted to engage in international market from their outset. Moreover, they decided to internationalise since the inception. These examined SMEs showed lower level of risk perception in order to proactively decide to internationalise. They perceived opportunity in order to engage in international markets and thus, for them, outweighed the risks. In this way, the perception of risk among these founders/managers was different – i.e. lower – than for the other five company owners/managers – specifically regarding the intention to serve international customers/markets. Nonetheless, not one of the managers at any of my sample SMEs went as far as to actually do anything. Again, whether they proactively decided to internationalise or not, they did not approach their overseas customers, instead it was their customers themselves who initially approached.

## *The Pace of Initial Internationalisation*

The findings in this chapter also point to the influence of risk perception on the pace of internationalisation. Specifically, they appear to illustrate that risk perception decelerates the examined SMEs' pace of initial internationalisation. Nevertheless, the examined SMEs do *not* speed their initial internationalisation by themselves. Their pace of initial internationalisation is determined by their customers. Instead of approach their customers in order to internationalise, the examined SMEs wait for customers to approach by themselves and take them to international market.

Considering variations in risk perception expressed between the individual founders/managers at the eight cases, the findings show that the examined SME managers which proactively decided to internationalise (three SMEs, six individuals) are more accelerated in term of initial internationalisation. These examined SMEs have internationalised since the beginning of their business. On the other hand, the examined SME founders/managers who did not proactively decide to internationalise (five SMEs, ten individuals) are less rapidly to involve in international market. In other words, the founders/managers who had already decided that they would like to serve international customers were quicker to react *once the opportunity was there*, compared to the ten founders/managers who had no thought of serving foreign customers due to their elevated perceptions of the potential risks involved.

## *International Markets Served*

None of the examined SMEs has selected their international markets in any proactive manner. Although, the international markets served appear to be relatively adventurous and high risk – specifically in terms of psychic distance and geographical distance. The point is these markets served are not chosen by the examined SMEs. They have no proactive decision made concerning either market coverage or market selection. It is their customers' choice of international market wherever they should serve. They only act in response to their customers' choice. Their international markets are generally depended on where their customers' markets are located. In this way the existing literature on market choice and risk and/or knowledge can be deceptive and misleading. On the fact of it, my data points to high risk and unfamiliar markets, specifically in terms of psychic distance and geographical distance which is opposed to the literature. Furthermore, my data points to a high tolerance of risk, but the reality is rather the opposite.

## *Choice of International Entry Mode*

All of the examined SMEs employ only export mode for their internationalisation. However, they show different behaviour on the choice of export entry mode. Only three of the examined SMEs proactively choose export for their internationalisation. They also initially intend to engage in international market and proactively decide to internationalise. The respondents from these examined SMEs demonstrate that the lack of resources of the company is the main underlying reason for the choice of export entry mode. However, they also reflect the risk perception in the course of possibility, opportunity, and suitable for them to conduct export as their entry mode. In these cases, risk perception does not affect the choice of export entry mode of these examined SMEs directly but it affects through the lack of resources of the company.

For these examined SMEs, their representatives exhibit lower levels of risk perception in order to choose export entry mode compare to the representatives of the examined SMEs which do not proactively choose to conduct export. Therefore, risk perception supports their choice to conduct export. They perceive export entry mode as low risk and possible to conduct.

The findings also show that most of the examined SMEs (five out of eight) do not proactively choose to conduct export for their international market involvement. They unintentionally engage in international market by receiving unexpected orders for export from their customers. They are approached by their customers and then they react to their customers' requirement. Moreover, these examined SMEs did not intend to engage in international market, and also did not proactively decide to internationalise. Therefore, they did not think of any international entry mode even export to get into international market. For these examined SMEs, their representatives exhibit higher levels of risk perception in order to choose export entry mode compare to the representatives of the examined SMEs which proactively choose to conduct export. Risk perception prohibits their choice of export entry mode. Export is difficult and complicated for them to conduct. Consequently, they did not want to employ export in order to enter international market. If they did not receive unsolicited orders for export, they would not employ export and would not enter international market at all.

As a result, risk perception affects the choice of export entry mode differently among individual firms. However, the main point is none of the examined SMEs have chosen to employ any other international entry mode. They have chosen to conduct only export for their internationalisation. Risk perception is found to be the underlying reason for their choice of export entry mode whether they proactively choose to conduct export – or indeed internationalise at all - or not. In general, risk perception motivates the choice of export entry mode for all of the examined SMEs' founders/managers. On the contrary, it prohibits their choice of any other international entry mode.

As mentioned before, every examined SMEs employ only export for their internationalisation. However, most of them (seven out of eight) do not initially conduct export by handling their own export. They employ indirect export for their initial international market involvement. Although the respondents' main initially stated reasons for this behaviour are reacted to their customers' requirement and lack of knowledge/understanding, the overall underlying motivators are lack of knowledge/understanding and risk perception. The respondents generally expressed lack of knowledge/understanding together with risk perception. The findings show that lack of knowledge/understanding has direct affect on the decision not to self-manage the export process from inception of firm's international market involvement of these examined SMEs. However, the respondents also reflect the fundamental of risk perception as they showed that there is too much risk to self-manage the export process from inception of their firm's international market involvement, so they do not want to do.

In these cases, risk perception prohibits the decision to manage export process from inception of firm's international market involvement. They perceive high level of risk if they manage their export process from the beginning of international market involvement. Therefore, they decided not to manage export from the beginning of firm's international market involvement.

Only one examined SMEs has managed its own export since the beginning of the firm's international involvement. It has conducted direct export since its inception. The rest of the examined SMEs which initially employ indirect export later develop their export entry mode and manage export for their customers. The findings also show that the examined SMEs have not much concern in order to handle self-management of export. The major concern is lack of knowledge and experience which they can prepare and learn to handle their export. The major motivator of self-management of export is a desire to participate in international trade fair. It is considered common in international trade fair that seller should handle export for their customers, except customers need to manage their own export. Therefore, they have to develop themselves to handle export activity for their customers. For their self-management of export, risk perception is still the main underlying reason. All of the examined SMEs have to participate in international trade fair in order to develop their export and manage export for their customers. They perceive low level of risk when participating in international trade fair. Participation in international trade fairs make them feels secure and can help them avoid uncertainty situations.

## *Internationalisation: Lack of Stage Progression*

Finally, the findings illustrate that all of the examined SMEs have employed only export in order to engage in international market. They have never employed any other international entry mode for their internationalisation. In the second round of interviews, the respondents expressed three main underlying reasons as the cause of the decision not to progress beyond exporting of the examined SMEs: risk perception, lack of knowledge/understanding, and lack of resources. The findings also illustrate that the most important underlying motivator of their behaviour is risk perception. In most cases, risk perception was expressed clearly as the underlying reason that affects the decision not to progress beyond exporting of the examined SMEs. However, in some cases, risk perception was not expressed directly but it was reflected from the respondents through lack of knowledge/understanding and/or lack of resources.

The increasing involvement in international market by employing other international entry modes further than export is considered too difficult and risky for all of the examined SMEs. Risk perception is an important determinant of the internationalisation expansion of these examined SMEs. In every case, it prohibits the decision to expand beyond exporting or any future intention to progress to any stage beyond exporting.

## 5.2.8 Discussion

Findings from Chapter 4 demonstrate that the examined SMEs do not completely internationalise in accordance with existing internationalisation process theories (e.g. Johanson and Vahlne 2009; 1977, 1990; Cavusgil 1980; Czinkota 1982; McDougall *et al.* 1994; Oviatt and McDougall 1994, 1995; Knight and Cavusgil 1996). In this section, I will first present and discuss the importance and inter-relationship of my three principal drivers which affect the internationalisation process behaviour of my SME respondents (sections 5.2.8A–5.2.8C). These are: risk perception, lack of knowledge/understanding, and lack of resources. Afterwards, I will expand on how each of these major determinants affects the various facets of the internationalisation process (sections 5.2.8.5D–5.2.8.9H).

### *5.2.8A Risk Perception*

Risk perception and/or tolerance for ambiguity is held to vary due to a number of factors including religious beliefs (Sjoberg and Wahlberg, 2002), experience (e.g. Barnett and Breakwell, 2001), cultural and wider socio-demographic characteristics (e.g. Wardman 2006; Hakes and Viscusi 2004; Dake 1992; Weber *et al.* 1998; Bontempo *et al.* 1997) and personal facets or psychological/personality traits (e.g. Bhagat *et al.* 2002; Lord and Maher 1991; Weiss and Adler 1984).

The findings of this research suggest that several major factors stand out as being of most influential – societal-culture risk perception (as predicted) and personality/psychology differences with regard to risk, lack of firm resources, and lack of knowledge/understanding. Societal-culture factors here revolve around prior evidence that Thai culture expresses higher uncertainty avoidance and less tolerance for ambiguity compare to the Western-based cultures, particularly USA, Sweden, Denmark, and Australia (Hofstede 1980, 1997) where the extant internationalisation process theories were developed and executed. My findings suggest that cultural difference in risk perception distinguishes Thai SMEs internationalisation process behaviour from contemporary internationalisation process theories derived from these Western-based context in which it was designed and executed. At this societal-culture level, broad differences in risk perception appeared to counteract the usual stage development of the internationalisation process in that the progression stopped at the stage of exporting which question on the progressively increasing commitment/involvement to the foreign market in internationalisation process of the Stage models (Johanson and Wiedersheim-Paul 1975; Johanson and Vahlne 1977, 1990; Cavusgil, 1980).

I also found, however, evidence of the influence of varying risk perception at the individual level due to differences in attitude and personality and circumstances i.e. which varied across our respondents. These also support many relevant literatures which find that individual managerial risk perception is an important determinant of internationalisation. They included the affect on decision to internationalise (Sullivan and Bauerschmidt 1990; Manolova *et al.* 2002) – which my findings show that some had made proactively, being more comfortable with the risk involved and others (the majority) had begun on a reactive basis i.e. only when approached with interest or with a customer order – the pace of initial internationalisation (Acedo and Jones 2007), and the choice and/or progression towards direct or self-managed exporting (as opposed to using agents exclusively) (Ahmed *et al.* 2002).

This can be summarised that both individual level and societal-culture level risk-related behaviour/cognition played a crucially important role in the way that the examined SMEs did internationalise, specifically regarding:

- the decision to internationalise (risk perception varies at individual level)

- the pace of initial internationalisation (risk perception varies at individual level)
- the choice of international entry mode, and (risk perception varies at individual level)
- the lack of stage progression beyond exporting (risk perception uniform at societal-culture level – common to all respondents)

### *5.2.8B Lack of knowledge/understanding*

Lack of knowledge/understanding is found to be one of the major underlying factors identified by the respondents which affect the internationalisation process behaviour of the examined SMEs. This is consistent with the Stage models of internationalisation which claimed that knowledge is the main factor that influences the internationalisation process of firm (e.g. Johanson and Wiedersheim-Paul 1975; Johanson and Vahlne 1977, 1990, 2009; Bilkey and Tesar 1977; Cavusgil 1980; Czinkota 1982). These scholars characterise internationalisation as a process which evolved from the interplay between the development of knowledge and market commitment. As firms learn through time and gain experience, they commit progressively more resources to international activities and accept the increasingly higher risks of entering and operating in new and distant markets (Etemad and Wright 1999).

However, the examined SMEs have not fully followed these scholars' process of internationalisation because of lack of knowledge/understanding of their owner/manager which further affects the risk perception of their owner/manager. Risk perception is vary due to experience (e.g. Barnett and Breakwell, 2001) and personal facets or psychological/personality traits (e.g. Bhagat *et al.* 2002; Lord and Maher 1991; Weiss and Adler 1984). Therefore, individual may have different level of risk perception due to their personal knowledge/understanding and experience. As the knowledge of the international market increase, the firm can overcome the risks and disadvantage of foreign markets (Johanson and Vahlne 1977, 1990), accordingly the decision-maker(s) of the firm perceive the lower level of risk. On the other hand, if the decision-maker(s) of the firm have lack of knowledge/understanding on doing something regarding international market, they will perceive that condition/situation as unsecure and too risky. They also show a higher level of risk perception according to that condition/situation. Then, the decision-maker(s) of the firm may not decide to do those things that are perceived too high risk because of their lack of certain knowledge/understanding on that condition/situation. This study illustrated the same circumstance that there is a link between risk perception and the lack of knowledge/understanding – in this study, the lack of knowledge/understanding of the owners/managers reflect the high level of risk perception of themselves. As we can see from the findings that risk perception can affect internationalisation process behaviour of the examined SMEs through the lack of knowledge/understanding.

### *5.2.8C Lack of Resources*

Another major underlying factor affecting internationalisation process behaviour of the examined SMEs identified by the respondents is the firm's lack of resources. Resources are examined by many scholars as the major factor which affects the internationalisation of firm. Resource is a source that diversifies the internationalisation process of firm. The different internationalisation motivations, methods, and modes are evaluated in terms of their ability to achieve value based on the resource set of the firm (Madhok 1997, Tallman 1991). Even in the same industry, firms perform differently because they differ in their resources and capacities (Wernerfelt 1984). Resource is also the major factor influencing the firm's ability to internationalise. Bloodgood *et al.* (1996) have argued that a new venture's ability to enter foreign markets is directly related to its accumulated resource stocks. In addition, firms tend to develop new products and enter new markets where the resource requirements match their resource capabilities (Peteraf 1993). My findings are consistent with these literatures above. The respondents identified the lack of resources of their firm as the barrier to internationalise, particularly the choice of entry mode and the development of internationalisation process. The owner/manager of the examined SMEs select export entry mode to serve their international markets and decide not to progress beyond exporting based on the resource set of their firm.

In addition to the literatures, there is a relation between lack of resources and risk perception of the examined SMEs owner/manager. The owner/manager of the examined SMEs select exporting entry mode because they consider that export is suitable for their resources to serve their customers in international markets. This is also reflecting that they perceive export as low risk for them to conduct, and they can accept those risks because they consider that export is appropriate for their resources. However, all of the examined SMEs have not developed further than exporting. This is because of the owner/manager of the examined SMEs perceive too high risk which they cannot accept. This is also based on their resources which they realise that their resources are not enough to conduct entry mode further than exporting. Therefore, they decide not to conduct any other modes than export.

My findings also suggest that for the participating owners/managers the factors previously identified in the literature as being important – specifically knowledge (e.g. Johanson and Vahlne 2009; Cavusgil 1980) and resources (e.g. Bloodgood *et al.* 1996; Madhok 1997) – are of only minor import in isolation. More precisely, they contribute to the risk perception and put together it as the major underlying variable affecting internationalisation process behaviour of the examined SMEs. Lack of knowledge/understanding of the owner/manager and lack of resources of the examined SMEs contribute to their risk perception. Thus, risk perception is the main underlying variable which affects the internationalisation process behaviour of the examined SMEs exacerbating their owner/manager's perceived lack of knowledge and perceived lack of resources of their firm.

### 5.2.8D The Decision to Internationalise

Concerning the cultural determinant of risk perception, literatures show that differences in risk perception are the result of cultural differences (Weber and Hsee 1998; Weber *et al.* 1998; Bontempo *et al.* 1997). My findings provide a more refined picture, suggesting that risk perception can be different between individuals from the same culture which causes different decision to internationalise among the individual firms. This is borne out in my findings in that there are only three examined SMEs that proactively decided to internationalise by themselves. These examined SMEs demonstrate lower level of risk perception in order to engage in international market. International market involvement is considered not too risky for them. Therefore, the owners/managers of these examined SMEs decided to lead their firm into international market by themselves. On the other hand, the rest of the examined SMEs did not proactively make decision to internationalise. They initially internationalise by receiving unsolicited orders for export from their customers. They only reacted to their customers' demand. They do not even intend to engage in international market. These examined SMEs exhibit higher level of risk perception. Engaging in international market is perceived as difficult and risky for them. Consequently, they do not proactive in order to make their decision to internationalise. They wait for their customers to give them an opportunity to internationalise and bring them into international market. They may not decide to go into international market at all, if they do not have opportunity from their customers. To this extent, my findings overall are in accord with the results previously identified linking explicitly risk perception with international market entry decision which claim that owners/managers who perceive higher levels of risk are less likely to pursue a strategy of internationalisation and lead the firm into international markets than owners/managers who perceive lower levels of risk (Sullivan and Bauerschmidt 1990; Manolova *et al.* 2002).

According to traditional theories of internationalisation such as the stage models, the manager's concern or perception of foreign market risk is the central inhibiting factor affecting the internationalisation process. The stage theory emphasises that gaining knowledge about foreign markets relieves this managerial concern (Johanson and Vahlne 1977, 1990). This study supports this theory. The findings show that lack of knowledge of the owner/manager prohibit the decision to internationalise of the firm. However, 'lack of knowledge' is only expressed as an initial reason concerning the decision to internationalise of the firms which did not proactively make decision to internationalise, where risk perception is strongly expressed later as their underlying reason of their decision to internationalise. All of the respondents who represent these examined SMEs perceive international market involvement as too risky. In another group of the firms which proactively make decision to internationalise, the owners/managers express 'Market status' as the underlying reason and driver of their decision to internationalise. Likewise, scholars have indicated the importance of external opportunities that were aggressively sought out by firms as the determinant of firm's internationalisation (Pett *et al.* 2004) and home country characteristics that make the home country unattractive and push the firm to international markets (Bartlett 1991; Tatoglu *et al.* 2003).

Again it is important to note that *none* of the examined SMEs exhibit *proactive* internationalisation process behaviour. In order to internationalise, they only react to their customers and follow them to international market. This is in contrast with the literature which explain that the proactive internationalisation process behaviour hinges on the firm 'taking the initiative' in venturing out to seek opportunities and getting closer to the customer (Lumpkin and Dess 1996). This is also a result of risk perception. Thai owners/managers' elevated risk perception dissuades from entering international market using proactive behavioural approach whether or not the decision has been made to serve international customers. Accordingly, Thai owners/managers are less likely to lead their firm into international market by using proactive behavioural approach than owners/managers from other culture which exhibit lower levels of risk perception like the Western-based culture, particularly USA, Sweden, Denmark, and Australia (e.g. Hofstede 1980, 1997) where the extant internationalisation process theories were largely developed and executed. To this extent, this finding can contribute to the results from Sullivan and Bauerschmidt (1990), suggesting risk perception affects the decision to proactively internationalise, not only the decision to internationalise in general.

### *5.2.8E The Pace of Initial Internationalisation*

Considering the pace of the firms' initial internationalisation, findings from chapter 4 illustrate that the majority of the examined SMEs (seven out of eight) internationalise either from inception or shortly after (within three years from inception). These examined SMEs exhibit rapid initial internationalisation and can be classified as ‘born global’ firms (e.g. Andersson and Wictor 2003; Andersson *et al.* 2006; Knight and Cavusgil 1996; Oviatt and McDougall 1994). Only one of the examined SMEs initially internationalise at the eighth year of its operation.

Oviatt and McDougall (2005) suggest that market knowledge moderates the speed of internationalisation though receiving limited attention in the literature. Accordingly, lack of knowledge of the owner/manager should inhibit the speed of internationalisation of the firm. However, the findings show that most of the examined SMEs can be classified as born global firm, so they have accelerated internationalisation process. Consequently, the findings are not consistent with this suggestion. The lack of knowledge of the owner/manager of the examined SMEs in this study does not show significant affect on the speed of internationalisation of the examined SMEs. Another main underlying variable - the lack of resources - also does not show significant affect on the speed of internationalisation of the examined SMEs.

However, although most of the examined SMEs can be classified as born global firm, they still have different pace of initial internationalisation between the individual firms. Concerning pace of initial internationalisation, risk perception derived from the international operations is considered the main determinant for the speed of initial internationalisation. Acedo and Jones (2007) conclude that firms with lower levels of risk perception are more likely to internationalise more quickly. My Thai-based findings confirm this conclusion. The examined SME managers who proactively decided to internationalise expressed lower level of risk perception than the examined SMEs which did not proactively decide to internationalise. The examined SMEs which proactively decided to internationalise (lower level of risk perception) have more accelerated initial internationalisation i.e. when customers came from abroad with international enquiries they reacted far more quickly than SMEs who had not made that decision to serve international customers beforehand. These examined SMEs also internationalise from their inception whereas most of the examined SMEs which did not proactively decide to internationalise (four out of five) initially involve in international market shortly after inception (within 3 years) and one of them initially internationalise at the eighth year of the start-up. This is consistent with the scholars such as Knight and Cavusgil (1996), Oviatt and McDougall (1997, 2005), and Wright and Etemad (2001) who suggest that the international entrepreneurial orientation (i.e. innovative, proactive, and risk-taking behaviour that crosses national borders) is one of the prime factors that determines the speed of international involvement.

However, the concept of 'proactiveness' that has been identified as being characteristic of born global firms (Rasmussen and Madsen 2002; Thai and Chong 2008) and the international entrepreneurial orientation (e.g. Oviatt and McDougall 1997, 2005) which accelerate the speed of internationalisation cannot be applied to the born global phenomenon of the examined SMEs. The findings show that none of the examined SMEs has proactive internationalisation process behaviour since they do not already approach their customers in international market. They wait for customers to approach themselves and initiate their international market involvement. Therefore, it might be argued that my major underlying variables - risk perception, lack of knowledge/understanding, and lack of resources - show less significant for the pace of the examined SMEs for the reason that they have customers approach by themselves and take them to international market either shortly or long after their inception.

However, the major point here is not that the examined SMEs initially involve in international market in proactive manner. Rather it was a conscious decision taken when customers approach and initiate international market involvement but without any behavioural back-up. This is because of the owners/managers' risk perception, lack of knowledge/understanding, and lack of resources prohibit their firm proactive internationalisation process behaviour because the examined SMEs do not have internal advantage that may allow the firm to exploit successfully a new international market (Pett *et al.* 2004). This further inhibits the pace of their firm initial internationalisation. Instead of approaching customers in international market by themselves, they initiated their international market involvement by reacting to their customers' demand. They wait for their customers to approach by themselves and take them to international market. Whether they proactively decided to internationalise or not, they may have to wait for a long time for the opportunity to internationalise from their customers. Moreover, if they do not receive any overseas order, they will have no chance to internationalise at all. This behaviour has yet to be discussed, or even identified, in the relevant literature to date.

### *5.2.8F International Markets Served*

In order to reduce the perceived risk of the international operations and to increase the efficiency of information flows between the firm and the target market, firms are attracted to foreign operations first in more familiar or psychical close distance from home country, and then further develop and enter new markets with greater psychic distance (e.g. Johanson and Wiedersheim-Paul 1975; Johanson and Vahlne 2009, 1990; Bilkey and Tesar 1977; Cavusgil 1980; Czinkota 1982). This allows experimentation without high risk and the time required to gather relevant knowledge and experience, before any deeper commitment is contemplated. However, my results do not appear to show that the examined SMEs are attracted to foreign operations first in a psychical close market and, indeed, appear to behave in precisely the opposite manner. Specifically, they initially export their products to country that is psychically and geographically distant from Thailand e.g. European countries and USA. The examined SMEs' international markets appear – at first sight – to be relatively adventurous and high risk – specifically in terms of psychic distance and geographical distance. This evidence is the same as the study of internationalisation in Malaysian furniture firms (Andersson *et al.* 2006), which was discussed in Discussion section of Chapter 4. However, this is contrast with the concept of 'psychic distance' between home and target markets which appears in incremental internationalisation process (e.g. Johanson and Wiedersheim-Paul 1975; Johanson and Vahlne 2009, 1977, 1990; Cavusgil 1980; Czinkota 1982).

The main point here is the examined SMEs' international markets were *not proactively selected at all*. Not one of the examined SMEs has proactively selected its own international market. All of the respondents clearly stated that there was no proactive decision made concerning either market coverage or market selection. Their international markets have been chosen by their customers. They only react to their customers' choice. Generally, the owners/managers of the firm do not have to proactively select any country for their international market. Their international markets are relied on their customers' markets. Because their international markets are already decided by their customers, thus the owners/managers of the firm do not have to concern about the market they should serve. This is also the same evidence from the study of internationalisation in Malaysian furniture firms (Andersson *et al.* 2006) (as discussed in Chapter 4: Discussion).

The findings also illustrated that all of the respondents have never thought about any reasons/determinants concerning the selection of their international market because the choice of international market is made by customers, who have their own specific markets to serve. This is inconsistent to the concept of 'psychic distance' between home and target markets that a firm will first target the markets that are most familiar in order to reduce the perceived risk of the international operations (e.g. Johanson and Wiedersheim-Paul 1975; Johanson and Vahlne 2009, 1977, 1990; Cavusgil 1980; Czinkota 1982). Also, it does not align with the incremental process which is explained by Johanson and Vahlne (1977, 1990, 2009) and the concept of resource capabilities which should match the resource requirements in order to enter new markets (Peteraf 1993). Johanson and Vahlne (1977, 1990) reason the complexity of internationalisation makes it a series of incremental decisions rather than bold initiative. The firm's expansion radiates from the home market in a systematic fashion: the operations of the firm are extended first to those markets that best fit the cognitive and resource character of the firm, and ultimately those of the poorest fit (Johanson and Vahlne 1977, 1990). However, this will be increasingly significant when the examined SMEs begin to proactively look for their international market and select it by themselves. Again, this potentially important distinction – to the very best of my knowledge – has not been identified in previous research and opens up the path to refining existing internationalisation process theory in diverse market contexts

### *5.2.8G Choice of International Entry Mode*

Thai and Chong's (2008) study on factors leading to the formation of born global Vietnamese SMEs found that their entry mode choice was influenced by market conditions as well as the internationalisation degree of the industries in which they find their business opportunities. However, for this present study, risk perception, lack of knowledge/understanding, and lack of resources were found to be the major determinant of the examined SMEs' choice of international entry mode. The findings demonstrate that the owners/managers of the examined SMEs have lack of knowledge/understanding of international market and the examined SMEs have lack of resources in order to select their international entry mode further than export. Therefore, all of the examined SMEs only choose export which they perceive it as suitable for their knowledge and the resources of their firm. They do not want to commit greater resources than exporting because it is beyond their knowledge and resources. These findings concerning knowledge, resources, and the selection of international entry mode is in the same line with Johanson and Vahlne who suggest that a decision for market commitment depends on what the firm knows about the market and what it has committed to the market (Johanson and Vahlne 1977, 1990, 2009). They also conclude that *"the better the knowledge about a market, the more valuable are the resources and the stronger is the commitment to the market"* (Johanson and Vahlne 1977, p.28). These findings also support literatures which state that the different internationalisation methods and modes are evaluated in terms of their ability to achieve value based on the resource set of the firm (Madhok 1997; Tallman 1991).

The findings also illustrate that risk perception prohibits the choice of international entry mode of the examined SMEs other than export. They perceived too high risk and unacceptable to conduct any other entry modes beyond exporting. Therefore, they only choose to employ export for their firm's internationalisation. This finding is in accordance with the finding of Ahmed *et al.* (2002) which show that low risk perceptions were associated with high levels of resource commitment and control modes of entry. This study extends this line of argument by providing tentative evidence of the impact of risk perception at both individual and cultural levels with some data to distinguish the two and their impact on varying facets of the internationalisation process. Therefore, they choose to employ only export which is the entry mode with low level of resource commitment and control modes of entry because they have high level of risk perception on other entry modes beyond exporting.

Furthermore, there is different behaviour on the choice of export entry mode between the individual firms. Not all of them proactively choose to employ export. Additionally, the examined SMEs which proactively choose to employ export show lower level of risk perception on export than the examined SMEs which do not proactively choose to conduct export – evidence of the impact of personality-derived variations in risk behaviour. However, the examined SMEs finally employ export for their international market involvement whether they proactively choose to employ export or not. This different risk perception between the individual firms only affects their initial choice of export entry mode. In the main, risk perception motivates the choice of export entry mode for all the owners/managers of the examined SMEs.

The examined SMEs initiate their internationalisation process by employing either indirect or direct export. Additionally, the examined SMEs which initially employ indirect export later develop their export entry mode to direct export. Risk perception is the major determinant for the choice of both indirect and direct export. It prohibits the decision to manage export process from inception of firm's international market involvement. Furthermore, participation in international trade fair is the only way for all of the examined SMEs in order to develop their export to direct export. The examined SMEs may not employ direct export at all if they do not participate in international trade fair. This illustrates that risk perception play important role for the examined SMEs to conduct direct export. Risk perception prohibits the owners/managers of the firm to use of other ways in order to develop the examined SMEs' export to direct export (which the examined SMEs may perceive higher risk) except international trade fair. According to elevated risk perception of Thai, participation in international trade fairs make them feel safe and can protect them from risky situations, as the evidence demonstrates. Briefly, although at first glance the seemingly confident, care-free move from indirect to direct exporting comes across as a seamless procedure. But this is once again deceptive and misleading. The underlying reason here is to do with the support offered by the international trade fairs, which reduces risk perception considerably and to an acceptable level for our respondents.

### *5.2.8H Form of International Development*

Considering international market development, all of the examined SMEs have never expanded their internationalisation process further than export. Their internationalisation process has been simply stopped at the exporting operation. Moreover, they do not have any plan to expand their internationalisation process further than export. The findings illustrate that risk perception, lack of knowledge/understanding, and lack of resources are the main underlying variables for the examined SMEs international development. This is consistent with the literatures which suggest that the mentality and mindset of management, the knowledge, and resources often function as stimuli in the development of the internationalisation process of firm (e.g. Bell and Young 1998; Chetty and Campbell-Hunt 2003; Coviello and McAuley 1999; O'Gorman and McTiernan 2000).

The unprogressive process beyond exporting is the same phenomenon which happens with the internationalisation of Malaysian furniture firms (Andersson *et al.* 2006). However, they did not concern about these variables. Even though they had exported to international markets for a long time and some knowledge of the markets had been gained, the firms showed no interest in extending their commitment further than exporting. This because of they had no financial incentive to develop their commitments beyond exporting (Andersson *et al.* 2006).

This finding is also *a priori* consistent with Ahmed *et al.* (2002). These researchers found that low risk perceptions were associated with high levels of resource commitment and control modes of entry. The examined SMEs demonstrate high level of risk perception on their increasing involvement in international market by employing other international entry modes further than export. Accordingly, they do not employ other international entry modes further than export. They commit their resource to conduct export for their internationalisation. Export is the international entry mode which requiring the lowest level of resource commitment and control mode of entry compare to other international entry modes. My data refines the literature in showing a large perception ‘leap’ between exporting and forming a local partnership with directly invested funds (strategic alliance) or any manufacturing potential. Moreover, this leap is expressed as one of risk perception which requires much knowledge and resources, and points towards being culturally-determined. The other point to note here is that the perception of respondents concerning the export mode of entry compare to other modes was that exporting was perceived not only as the lowest level of knowledge requirement and resource commitment but also securing relatively more control over the operation that, say, a wholly-owned manufacturing subsidiary. This is in contrast to the usual assumption found in the international business literature wherein studies tend to assume that export affords the most control and that other, more ‘hands-on’ modes of entry involve the least.

# Chapter 6
# Implications, Limitations and Conclusions

This chapter, to conclude my dissertation, will outline what I consider to be the major implications of my research for internationalisation process theory and practice. I shall also discuss the limitations of this study and why my results and conclusions must be taken with some caution. Finally, I shall delineate my personal learning experiences from composing this dissertation before ending with a summary concluding paragraph.

## 6.1 Limitations

Despite my best efforts throughout this research to be as rigorous as possible, there are still several reasons why my results should to be used with some caution.

### *Sample Size, Sample Scope*

The first of these concerns my sample – both in terms of the overall size and the scope. In terms of size, repeat in-depth interviews were conducted with the decision-makers at my eight chosen companies. Prior research has argued for the importance of focusing on the top management team within organisation – either big or small – for their critical involvement and often ownership of strategy-level decisions. For SMEs within the Thai societal context, this is intuitively even more the case, given the high 'power distance' that characterises my sample and indeed most Thai organisations (Nimmanandh and Andrews 2009) – specifically where the founders/owners and/or top managers take all responsibility and make all decisions. However, the fact that my study examined only eight SMEs with a total respondent headcount of sixteen means that, despite the strength and the cohesiveness (usually unanimous) of their underlying reasons for the internationalisation process behaviour of their firms, their joint assertions, taken together or apart, cannot be taken as representative of the Thai SMEs. Nonetheless, the clarity of their responses does give good and clear indication that quite probably other company decision-makers would feel the same way about such an underlying variable – namely the effects of risk perception, level of firm's resources and level of decision-makers' knowledge/understanding on the international development process. Certainly, this was the common opinion of my sixteen founders/owners/managers whenever other Thai SMEs and their decision-makers were referred to – that their reluctance to increasing international involvement beyond exporting was found firmly in their perception of 'post-exporting' internationalisation as i) beyond the sort of risk they would be comfortable with, ii) beyond their firm resource capacity and iii) beyond their owner/manager's knowledge/understanding. In this way, I am quite confident that my findings are able to apply across Thai SMEs in general, and that the unanimity of feeling across my sample – and their perceptions of other SMEs – is not simply coincidence.

This leads me directly to my second issue of caution, namely the fact that all my eight SMEs were from i) the Northern region of Thailand and ii) the manufacturing, handicraft, industry base. As discussed in my Methodology chapter, on the one hand, it was important to try and match my sample as closely as possible. This was in order to try to minimise the impact of such external variables such as industry context or region of operations upon my focus issue which may then distort respondents' opinions. On the other hand, I recognise that such a homogeneous sample may restrict at the same time the relevance or applicability of my findings to other Thai regions and/or industry contexts. Future studies can clarify about this issue.

## *Transferability of my Findings*

Stemming directly from the discussion above as concerns sample size and scope lies the legitimate premise that my relatively focused, in-depth approach counteracts the extent to which my results can be applied or generalised more broadly. Such concerns are as common as they justified when dealing with limited case study research. Regarding my own findings, given that my initial and overarching focus is risk perception, and given the strength and homogeneity of my respondents explanations, I would argue that there is actually little about my sample that make my SMEs any different from any other SMEs in Thailand which caught in the centre of internationalisation process behaviour. I would speculate further that in any societal context showing similar culturally-founded risk perceptions, the prevailing attitude towards international investment/involvement beyond the exporting mode would exhibit – to some extent – converging underlying characteristics. One might argue that Thailand forms a special case relative to other national environments, however, in that Thailand is a relatively homogeneous cultural background which built on an unbroken 1000 year history freed from the influences of Western colonisation – quite unlike any other nation in Southeast Asia and also most of Asia as a whole (Andrews and Chompusri 2001; Yukongdi 2010). In this way, the conceptions about distance and 'otherness' regarding international markets may justifiably be viewed as more marked and more significant than might be expected among founders/owners/managers in Malaysia, Hong Kong and Singapore (subject to British cultural influence) and Laos, Vietnam and Cambodia (subject to French cultural influence) and the Philippines (subject to American/Spanish cultural influence) – and influence of risk perception towards concentrated international activity as a consequence. However, the risk associated with knowledge/resource concentration in differing regional environments would affect all such founders/owners/managers in the same way – which argues in favour of transferability.

This leads me to my fourth limitation and that concerns my use of the nation/national territory as a proxy for culture i.e. equating political and cultural borders. This has been disputed but persistent critique in international management studies. It argues that Hofstede's dimension of uncertainty avoidance (for example) is an aggregated score for the members of a country and should not be used for the study of individuals or small groups – at least not as an untested assumption. To rectify this potential area of distortion, Schaffer and Riordan (2003), overviewing 'best practices' in cross-cultural research, argue that the researcher should first check the extent of cultural differences by directly gauging the specified dimension among the respondent sample beforehand – something that has *not* been done here in this research. However, in countering this assertion – and the potential limitations it contains – I would draw the reader's attention to three points:

i) Firstly, to be brief, Thailand is not like for example India, China, or Singapore. Here, I mean that Thailand does not have the wide variations or regional/ethnical/religious variations in behaviour, not to the same extent as the countries I have listed. In fact, compared to most countries in Asia – and Southeast Asia – Thailand is relatively homogeneous in cultural terms, and with a long and unbroken history. In this way, the aggregate scores of Hofstede are less likely to be average summaries of wide variations – and for this reason that for Thailand we can justifiably have confidence in them. This can further be expected in my study because all of my respondents are fairly matched along other variables as well, they all are founders/owners/managers or in other word key decision-makers of SMEs in the manufacturing, handicraft sector and all what may be termed as of an entrepreneurial tendency. Furthermore, although my findings capture certain differences at the level of personality as regards their internationalisation process behaviour, so far as investment in foreign markets beyond simple exporting was concerned, they all exhibited clearly the same underlying attitudes and fears.

ii) My second retort concerns the fact that I am using an empirical sample from a sole context, namely Thailand. I am not comparing one empirical sample with another – for example that of Thai managers with UK managers. As such, my Thai-based sample and their risk-related internationalisation process behaviour are not compared with another group of managers directly but rather indirectly with previous empirically-derived theory. This comprises both the purpose and the expected usefulness of measuring directly the risk attitudes of my 16 founders/owners/managers. The coherence and strength of my respondents' responses to my questions are also markedly similar that the issue of ‘aggregation’ in Hofstede’s dimensions is, in my opinion, less of an issue here than would otherwise be the case.

iii) Finally, my incorporation of the Hofstede’s measure for uncertainty avoidance in this study places me in a long line of researchers who have published research using the same tactic. A very relevant example for this particular study is that of the study by Barr and Glynn (2004) exploring Uncertainty Avoidance in the context of cross-border strategic decision making (published in the Strategic Management Journal).

### *Researcher World View/Bias*

Finally, the issue of researcher – as well as human – bias needs highlighting once again. The fact that all of the data for this study was sourced, collected and interpreted for the most part by myself alone is in itself a cause for potential concern and an added limitation. Specifically, no matter which techniques and methods were used this is always going to be a problem, if only because as a doctoral researcher myself and others we are not infallible, often subconscious and often deeply held prejudices in our minds in whatever we do and in whatever we see. Against this backdrop, one of which I tried to be continuously aware, I took steps as much caution as I could in trying not to see simply what I wanted to or what was most convenient, and to be consciously aware of both. Using multiple methods which is detailed in Chapter 3 goes some way towards compensate essentially this challenge.

## 6.2 Implications for Theory

### *Implications for Existing Theory*

As we can see from the previous chapter that the extant internationalisation process theories cannot fully explain the internationalisation process behaviour of my examined SMEs. There are I believe important implications that can therefore be drawn from this study, ones that warrant incorporation into future research examining the process of SME internationalisation processes in contexts radically different from those wherein much the existing theories were originated and developed. These, I feel, apply to companies both big and small although perhaps more closely to SMEs where decisions may be made by a sole individual or in small groups.

The existing internationalisation process theories only concentrate on the individual-level factors of decision-makers/firms which affect the internationalisation process behaviour of the firm such as knowledge (e.g. Johanson and Vahlne 1977, 1990, 2009; Cavusgil 1980; Hadley and Wilson 2003), resources (e.g. Bloodgood *et al.* 1996; Madhok 1997; Peteraf 1993), network (e.g. Johanson and Mattsson 1988, 1992; Fletcher and Barrett 2001), and risk perception (at the individual level) (e.g. Sullivan and Bauerschmidt 1990; Ahmed *et al.* 2002; Acedo and Jones 2007). My study shows the importance of context-specific factors, as well as individual-level differences. Relevant individual differences comprised decision-makers' risk perception behaviour, knowledge/experience, and resources of the firm. The context-specific factors for this study consist of the relatively high needs to avoid uncertainty in cultural level (Hofstede 1997) – which effect the elevated risk perception – that characterises the Thai business/societal environment, especially when compared to the Western-based context from which the extant internationalisation process theories are originated, particularly USA, Sweden, Denmark, and Australia where uncertainty avoidance levels are lower (and relatively low need to avoid uncertainty). This different context-specific on level of risk perception – which is the result of relatively high uncertainty avoidance – causes different internationalisation process behaviour of the examined SMEs from these Western-based contexts. I feel that the results of my study question to an extent of the applicability of existing internationalisation process theories not only to my particular sample but also to Thai SMEs in general and even possibly to all Thai and other companies from relatively high 'uncertainty avoidance' contexts (Hofstede 2001). The wider implication here is that the extant theories of internationalisation process behaviour should be taken with great caution for contextual difference.

The small number of studies conducted to date using samples taken from countries which are not both ‘open’ and ‘global’ tend, broadly speaking, to point to contextual factors particular to their host research environments as being of major importance in influencing the internationalisation process behaviour of indigenous firms (e.g. Elango and Pattnaik 2007; Thai and Chong 2008; Andersson *et al.* 2006). This study adds to this small but growing body of work and suggests that one particular are of huge importance is that concerning differences in risk perception, especially in cultural environments which express high levels of uncertainty avoidance (Hofstede 2001).

## *Directions for Future Research*

Initially, I would like to suggest that the future research should verify the effect and relation of owners/managers’ risk perception to their knowledge/understanding, and resources of their firm, primarily in Thai domestic context and probably other Asian contexts which have a similar uncertainty avoidance level to Thailand.

Furthermore, future research needs to address the challenges to existing theories that my current study highlights. I would like to suggest tentatively that this needs to be addressed in a step-wise process. To begin with, my findings need to be more widely tested using a far larger sample across a cross-section of regions and industries – and even size of company – in the Thai domestic context. On the expectation that my findings are replicated, i.e. that Thai SMEs express a marked reluctance to engage in the latter stages of international market expansion primarily due to ‘unacceptably high’ perceptions of risk, then the study would warrant still further investigation. Initially, this might be conducted across other Asian SMEs samples with a similar uncertainty avoidance level to Thailand. However, I would recommend the use of direct measures of potential respondent’s uncertainty avoidance levels before decide to select the respondent of the study, to be more confident in the degree and salience of this dependent variable among the respondent sample. This will verify the similarity of the respondent's uncertainty avoidance level and reduce potential distortion of the data. At a wider level, still studies should incorporate a cross-section of companies from different contexts exhibiting variations along both uncertainty avoidance and other cultural and institutional, even regulatory, variables in order to examine the affect of these variables and together with uncertainty avoidance on the internationalisation process behaviour of the companies from different contexts.

## 6.3 Implications for Thai SMEs/Managers

Increasing numbers of SMEs across the Asian continent are faced with enormous opportunities abroad but at the same time continuing threats from abroad at home. On the one hand, they have the attraction of seemingly mature and growing markets for their own product/service development and expansion strategies. On the other hand, these firms face increasing numbers of international competitors – often from firms in these very same markets. In the context of such developments, Thai SMEs have to be competitive and this may involve and require greater internationalisation efforts towards the establishment of strategic local partnerships and even wholly-owned production facilities. The SMEs in my sample had not progressed beyond exporting and had no intentions of trying to do so in the future. Their stated reasons – in the aggregate – were summarised as a lack of knowledge/understanding, lack of resources and an elevated perception of involved risk. So the important consideration now is to what extent can these major factors be addressed.

The appropriate management and assessment of business/commercial risk - such as political/regal, economic, and socio-cultural factors - will form an integral part of this process. Decision-makers of the companies are influenced from many factors in cooperation from individual and context-specific levels. Culturally-derived behaviour, in the broadest sense, describes prejudice in that culture acts as a lens through which external phenomena are construed and judged. Furthermore, culturally-derived risk perception of the decision-makers is still concerned at some certain stage of the internationalisation process of the firm which causes the different behaviour of the internationalisation process of the firm from different cultural background - uncertainty avoidance in particular. Accordingly, a simple awareness of this prejudice, and how risk perception in particular is subjectively formed along societal traditions maybe critical for the key decision-makers at these companies in order to lead and develop their company in international market.

Although owners/managers have some similarities on level of risk perception that reflect their internationalisation process behaviour according to their culture, individual may also have their own character and thought according to their personal/firm background such as knowledge/understanding and resources which affect their risk perception, and in turn influence the internationalisation process behaviour of their firm. The lack of knowledge/understanding of the owner/manager and the firm's lack of resources are the main underlying variables affecting the internationalisation of the examined SMEs. However, having lots of resources may not be a main rationale for the progress of the firm‘s internationalisation. The main concern is how firm developing on the successive and sustainable steps, and also on the right timing. Consequently, the decision-makers of the firm have to consider what suitable for their resources including intangible resources such as knowledge, or they have to obtain resources which match what they want to conduct.

My findings show that risk perception – as a cultural level influence – affects internationalisation process behaviour of my sample SME owners/managers. However, at the individual level, it is probable that in order to adjust their individual risk perception of internationalisation beyond exporting, firms should obtain the knowledge and/or other resources required for so doing. In this way risk perception is both a cause and effect depending on the level analysed. In practical terms, the owner/managers of Thai SMEs should actively improve their knowledge about international strategy, method, and markets in order to gain more competitive in overseas markets. This required knowledge can be acquired from various sources such as books, magazines, internet, as well as network and relationships, also there are many courses teaching in lots of colleges and universities in/outside Thailand.

Furthermore, there are many institutions established by Thai government in order to promote Thai SMEs, especially to compete in international markets such as Department of Export Promotion, Ministry of Commerce; Department of Industrial Promotion, Ministry of Industry; The Office of Small and Medium Enterprises Promotion (OSMEP); Institute of Small and Medium Enterprises Development (ISMED); The SME Development Bank of Thailand (SME Bank); and The Export-Import bank of Thailand (EXIM Bank). These institutions can help to promote Thai SMEs in terms of providing knowledge/information, market support such as international trade fairs and business matching, as well as financial support (for details please refer to Appendix 9-13). Other resources, especially tangible resources can be obtained further after the firm continuously succeeds on their progressive internationalisation. On this principle, Thai SMEs can gain more ability to create their competitive advantage and further develop their internationalisation process.

Concerning the government support, there still have some obstacles for SMEs such as the ability to access to financial support or receive information, the strict regulation/condition for SMEs which would like to obtain endorsement, and government support that not really match the needs of SMEs. Therefore, government institutions which have a duty to promote SMEs should get closer to SMEs and find out their problems. They should reconsider their policy, promotion, as well as regulation/condition in order to provide SMEs with what they really needs and give them more comfortable to gain access to such promotion.

## 6.4 Personal Learning Reflections

<u>Relative importance of the 'How' over the 'What'</u>: What I mean here is that on the beginning of my research I thought that the content of my study was the most important thing, But as my study progressed and I began interpreting and writing up the data it became clear to me that the how question was far more important than I anticipated, and in particular how the entire dissertation would stand or fall on the quality and robustness of my data collection and analysis procedures.

Role and importance of theory review: What also struck me as I went along was the realisation of how important it is to adequately ground my research in what has been done to date. At the beginning, I was impatient with this part, I wanted to progress as quickly as possible with my collection and writing up. However, I have come to realise now the central role of literature synthesis and its direct relevance to the quality of what follows.

Interrelatedness of Sections/Stages of Research: Towards the end of my dissertation, I began to realise how the various stages actually connect together in practice. Although we were taught about this in my research methods classes, it was only while actually doing it, and very late in the process, that I came to understand how a doctoral thesis hangs together – particularly the way the concluding chapter connect back to the introduction, and also how the discussion connects together the primary results with the extant literature.

# 6.5 Conclusion

There are many factors which have been identified as the determinant of the internationalisation process behaviour of firm such as business network and relationships, the mentality and mindset of management, knowledge, resources and the opportunity structure. Furthermore, the increasing deregulation of global markets – business system, laws and regulations – technology, the rapid emergence of cross-border business opportunities, and even consumer behaviour have made the study of internationalisation process of huge current and potential importance. However, this has not meant that underlying cultural differences (sometimes going back hundreds or thousands of years) have simply vanished. They have been converging, but at a far slower pace (Ralston 2008).

Within this context the need to incorporate long-held cultural dissimilarities into so called universal or global theories of management and organisational behaviour is critical. As we can see that the extant internationalisation process theories - which are developed and executed in the Western-based contexts, particularly USA, Sweden, Denmark, and Australia - cannot fully explain the internationalisation process behaviour of my examined SMEs. Risk-related behaviour and perception is one key underlying reason. Furthermore, up to now it is almost entirely understudied and underestimated phenomenon in internationalisation process behaviour. As Johanson and Vahlne (2009, p.1416) state *“the aim of theory building is not to replicate a complex reality; it is to explain its central elements”*. Nonetheless, it is hoped that this study may provide a small step in trying to address these complex contemporary organisational realities and – through this in-depth study of the role of risk perception as a major determinant - to make the existing theories of internationalisation process behaviour more robust and inclusive.

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# Appendices

## Appendix 1 Number of Enterprises Classified by Size Year 2005-2007

| Size | Number of Enterprises | | | Proportion to total enterprises in 2007 (%) |
|---|---|---|---|---|
| | 2005 | 2006 | 2007 | |
| Unspecified | 6,210 | 8,240 | 4,817 | 0.2 |
| Large | 4,474 | 4,292 | 4,324 | 0.18 |
| SMEs | 2,239,069 | 2,274,525 | 2,366,227 | 99.62 |
| Total | 2,249,753 | 2,287,057 | 2,375,368 | 100.0 |

Adapted from www.sme.go.th

## Appendix 2 Number of SMEs Classified by Business Sector Year 2005-2007

| Business Sector | Number of SMEs | | | Proportion to total SMEs in 2007 (%) |
|---|---|---|---|---|
| | 2005 | 2006 | 2007 | |
| Manufacturing | 696,816 | 672,351 | 668,185 | 28.24 |
| Trading and Maintenance | 878,020 | 908,846 | 973,248 | 41.13 |
| Service | 644,032 | 675,622 | 708,841 | 29.96 |
| Unspecified | 20,201 | 17,706 | 15,953 | 0.67 |
| Total | 2,239,069 | 2,274,525 | 2,366,227 | 100.0 |

Adapted from www.sme.go.th

## Appendix 3 Employment by Enterprise Size Year 2005-2007

| Size | Employment (person) | | | Proportion to total employment Year 2007 (%) |
|---|---|---|---|---|
| | 2005 | 2006 | 2007 | |
| LE | 2,662,543 | 2,687,938 | 2,810,767 | 24.0 |
| SMEs | 8,458,160 | 8,863,334 | 8,900,567 | 76.0 |
| Total | 11,120,703 | 11,551,272 | 11,711,334 | 100.0 |

Adapted from www.sme.go.th

# Appendix 4 Gross Domestic Products (Year 2005-2007)

| Year | 2005 (% of total GDP and THB million) | 2006 (% of total GDP and THB million) | 2007 (%of total GDP and THB million) |
|---|---|---|---|
| GDP | 100.0 (7,087,660.0) | 100.0 (7,816,474.0) | 100.0 (8,485,200.0) |
| Manufacturing | 34.8 (2,466,180.0) | 35.0 (2,739,534.0) | 34.9 (2,960,136.0) |
| Trading and Maintenance | 14.6 (1,037,682.0) | 14.3 (1,114,739.0) | 13.9 (1,181,270.0) |
| Service | 31.1 (2,203,078.0) | 30.4 (2,377,620.0) | 30.7 (2,608,524.0) |
| GDP for SMEs | 39.37 (2,790,413.5) | 38.91 (3,041,895.9) | 38.24 (3,244,974.5) |
| SE | 26.54 (1,881,273.2) | 26.14 (2,043,460.3) | 25.64 (2,175,597.9) |
| ME | 12.83 (909,140.2) | 12.77 (998,435.6) | 12.60 (1,069,376.6) |

Adapted from www.sme.go.th

# Appendix 5 Gross Domestic Products for SMEs (Year 2005-2007)

| Year | 2005 (% of total SMEs GDP and THB million) | 2006 (% of total SMEs GDP and THB million) | 2007 (% of total SMEs GDP and THB million) |
|---|---|---|---|
| GDP for SMEs | 100.0 (2,790,413.5) | 100.0 (3,041,895.9) | 100.0 (3,244,974.5) |
| SE | 67.42 (1,881,273.2) | 67.18 (2,043,460.3) | 67.05 (2,175,597.9) |
| ME | 32.58 (909,140.2) | 32.82 (998,435.6) | 32.95 (1,069,376.6) |
| Manufacturing | 29.7 (829,933.7) | 30.3 (921,924.4) | 30.7 (996,163) |
| Trading and Maintenance | 29.7 (828,029.4) | 29.2 (889,517.8) | 29.0 (942,607) |
| Service | 32.5 (906,320.7) | 32.2 (978,561.1) | 32.1 (1,043,191) |

Adapted from www.sme.go.th

# Appendix 6 SMEs and International Trade

| Year | 2005 | 2006 | 2007 |
|---|---|---|---|
| SMEs Export/Total Export | 29.7% | 29.1% | 30.1% |
| SMEs Import/Total Import | 32.4% | 32.7% | 29.8% |
| SMEs Export/GDP SMEs | 47.2% | 47.3% | 48.8% |
| Total Export/Total GDP | 62.6% | 63.3% | 61.9% |

Adapted from www.sme.go.th

## Appendix 7 Value of SMEs Exporting to Different Regions in 2007

| Country/Group of Countries | SMEs (Million Baht) | Proportion to Total SMEs Export | Total Country Export (Million Baht) | Proportion to Total Country Export |
|---|---|---|---|---|
| ASEAN | 382,459.0 | 24.0% | 1,475,828.5 | 28.1% |
| Japan | 211,815.3 | 13.3% | 1,004,329.0 | 19.1% |
| EU-27 | 203,950.4 | 12.9% | 560,597.1 | 10.7% |
| USA | 166,645.1 | 10.5% | 710,569.5 | 13.5% |
| Hong Kong | 151,805.6 | 9.6% | 305,694.2 | 5.8% |
| Middle East | 70,978.9 | 4.5% | 151,052.2 | 2.9% |
| China | 69,037.0 | 4.4% | 217,239.9 | 4.1% |
| Australia | 45,275.4 | 2.9% | 150,071.1 | 2.9% |
| Switzerland | 42,056.3 | 2.7% | 83,568.3 | 1.6% |
| Taiwan | 38,155.4 | 2.4% | 97,677.0 | 1.9% |
| South Asia | 37,429.9 | 2.4% | 102,268.0 | 1.9% |
| Republic of Korea | 25,082.1 | 1.6% | 78,856.3 | 1.5% |
| CIS | 7,003.9 | 0.4% | 12,726.3 | 0.2% |
| South America | 5,665.5 | 0.4% | 25,386.4 | 0.5% |
| Others | 125,950.2 | 8.0% | 279,135.4 | 5.3% |
| Total | 1,583,310.1 | 100.0% | 5,254,999.3 | 100.0% |

Note: ASEAN (excluded Thailand): Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, and Vietnam

EU-27: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and the United Kingdom

Middle East: Bahrain, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, United Arab Emirates, and Yemen

South America: Argentina, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay, and Venezuela

South Asia: India, Bangladesh, Pakistan, Sri Lanka, and Nepal

CIS (Commonwealth of Independent State): Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova Republic of Russian Federation, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan

Source: www.sme.go.th

## Appendix 8 Value of SMEs Importing from Different Regions in 2007

| Country/Group of Countries | SMEs (Million Baht) | Proportion to Total SMEs Import | Total Country Import (Million Baht) | Proportion to Total Country Import |
|---|---|---|---|---|
| China | 263,965.1 | 18.2% | 564,591.0 | 11.6% |
| Japan | 262,406.8 | 18.1% | 988,535.7 | 20.3% |
| ASEAN | 201,775.2 | 13.9% | 872,365.1 | 17.9% |
| EU27 | 193,924.6 | 13.3% | 420,606.6 | 8.6% |
| USA | 109,831.1 | 7.6% | 330,662.9 | 6.8% |
| Taiwan | 63,223.8 | 4.4% | 199,759.1 | 4.1% |
| Republic of Korea | 58,619.4 | 4.0% | 184,223.3 | 3.8% |
| Australia | 51,918.1 | 3.6% | 132,190.7 | 2.7% |
| Middle East | 35,196.8 | 2.4% | 631,331.8 | 13.0% |
| South America | 19,098.4 | 1.3% | 68,060.7 | 1.4% |
| CIS | 10,183.7 | 0.7% | 60,542.8 | 1.2% |
| South Asia | 2,803.1 | 0.2% | 4,169.7 | 0.1% |
| Others | 180,228.8 | 12.4% | 414,956.3 | 8.5% |
| Total | 1,453,174.8 | 100.0% | 4,871,995.7 | 100.0% |

Source: www.sme.go.th

# Appendix 9 Ministry of Industry's law on the Promotion of SMEs

The most important stage agency directly involved with SMEs in the Ministry of Industry. Law on the "Promotion of SMEs" was proposed by this Ministry in 2000 and was promulgated in the same year. The three major components of this law are as follows:

a.) The establishment of Office of SMEs Promotion to be responsible directly to the Board of Executive of the Office of SMEs Promotion. This office is an independent governmental agency, acting as a central planning office, coordinating the strategic plans and works of all relevant agencies related to SMEs development. It also functions to manage and administer SMEs promotion funds.

b.) Provision of SMEs Promotion Funds. These include the provision of loans lent to the newly set-up SMEs and also loans for the improvement and expansion of the existing private SMEs, R&D projects, technical and financial consultations, as well as seminars and workshops.

c.) Formulation of major Promotion Strategic Plan and Policy. This four-year plan was formulated by the Ministry of Industry. Currently, year 2008-2011 plan has five strategies in order to increase the strength and efficiency of SMEs.

Strategy 1: Strengthen the operational capability of SMEs

Strategy 2: Incubate and strengthen the new entrepreneurs and promote innovation

Strategy 3: Promote and support SMEs on value creation and increase innovative capacity

Strategy 4: Support SMEs in provincial areas

Strategy 5: Support basic necessity on SMEs promotion

Source: www.industry.go.th

# Appendix 10 The Office of Small and Medium Enterprises Promotion (OSMEP)'s Objectives and Services

## Objectives

The Board of Small and Medium Enterprises Promotion has resolved and passed policies to the OSMEP to be the centre for promoting SMEs with these following objectives:

1) To establish criteria to characterize SMEs in accordance with social and economic environment
2) To define categories and sizes of SMEs to be promoted and to propose promotional policies plans.
3) To cooperate with other public offices state enterprises and relevant private organisations in the formulation of policies and action plans for SMEs promotion.
4) To prepare SMEs studies and nationwide SMEs status quo report.
5) To propose to the Boards of SMEs Promotion on law amendments, new legislation and regulations.
6) To manage the Fund for SMEs promotion.
7) Executing administrative work of the Board of SMEs Promotion.
8) To perform other duties under the Act and assignments of the Board.

## Services

There are several services under the OSMEP. The Service Centre for SMEs provides several activities including counseling on financial sources, counseling on marketing and management issues and serving as a coordination centre for other agencies concerning SMEs promotion. The OSMEP also provides the activities on promoting SMEs abroad. The office has participated in a number of activities regarding relations with other countries or agencies abroad. One top priority is to promote

SMEs to world market, maintaining close relations with several agencies for example Japan External Trade Organisation (JETRO), Ministry of Economy, Trade and Industry, Japan (METI), US Chamber of Commerce, ADB, and World Bank.

Source: www.sme.go.th

## Appendix 11 The Promotion plan of SMEs of Thailand No.2 (2007-2011)

In line with the five-year National Economic and Social Development Plan, the Promotion Plan of SMEs of Thailand (coordinated by the office of SMEs promotion.) was proposed to emphasise the importance of SMEs development. The goal is to make Thai SMEs the engine for the economy as a whole, functioning environmentally friendly yet fully-competitively at international levels, while maintaining high standards of quality and doing so with sustainability, to the benefit of the entire population.

Strategy 1: Create and develop the capability of SME entrepreneurs
Strategy 2: Upgrade the innovative productivity and competitiveness of SMEs in manufacturing sector
Strategy 3: Accrue the efficiency and alleviating impacts in trading sector
Strategy 4: Promote the capability on value creation in service sector
Strategy 5: Support SMEs in provincial areas
Strategy 6: Promote community and local products
Strategy 7: Create conducive business environment and develop enabling factors
Source: www.sme.go.th

## Appendix 12 Institute of Small and Medium Enterprises Development (ISMED)

Minister of Industry and Thammasat University are the co-founders of this institute. The objectives of this institute are to develop the SMEs entrepreneurs and to create new entrepreneurs through the training programmes and advisory programs. The institute has created SMEs training network in all regions nationwide, including the SMEs Development Centre at Chiang Mai University in the Northern region, Research and Training Centre at Khon Khaen University in the North eastern region, and Faculty of Business Administration at Songkhlanakarin University in the Southern region. So far, thousands of SMEs entrepreneur have been trained and got advises from this network.

Source: www.ismed.or.th

# Appendix 13 The SME Development Bank of Thailand (SME Bank)

The SME bank was established in 2002 (re-establishment of the Small Industry Finance Corporation (SIFC)), as a specialised financial institution for strengthening and development of SMEs, providing financial support to SMEs and promoting new SMEs. The Bank's mandate is "to conduct business with the aim of developing, promoting and assisting small and medium enterprises to start-up, expand or improve their businesses by providing loans, guarantees, venture capital, counseling and other necessary service as prescribed by the Act.". The objectives of the Bank are

- To support the strengthening and competitiveness enhancement of strategic SMEs
- To create financial services which are responsive to the needs of strategic SMEs
- To develop a network of strategic alliances
- To create and develop new entrepreneurs

The business direction aims for continue growth through expanded customer base covering all provinces with emphasis on new entrepreneurs and strategic clusters in accordance with the national agenda. For financial prospective, the strategic approach is to increase channels of income, expanding lower-risk and high-return business so as to generate sufficient revenue to compensate for high-expense, high-risk services to generate income distribution to the unprivileged. The SME bank provides several financial products including general credit, factoring credit, packing credit, leasing and hire-purchase credit, and letter of guarantee. Furthermore, SME BANK recently expand mutual cooperation with The Export-Import bank of Thailand (EXIM Thailand) to provide fully-integrated international trade financing service to enhance SME production capability and competitiveness in the global marketplace. The contract set out an extended scope of work to be done collaboratively by the two banks. Under this pact, EXIM Thailand agrees to provide

SME BANK clients with fully-integrated financial services for export, import and overseas investment promotion.

Source: www.smebank.co.th; www.exim.go.th

# Appendix 14 APEC and SMEs

One of important inter-regional SME network is Asia-Pacific Economic Cooperation (APEC). Practically, APEC is a talking forum that consists of countries diversified in geographic and economic manners. There are 21 members in; Australia, Brunei Darussalam, Canada, Chile, the People's Republic of China, Hong Kong, Indonesia, Japan, Republic of Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, Philippines, Russia, Singapore, Chinese Taipei, Thailand, The United States, and Vietnam (Thailand is one of the founders).

The importance of SMEs in APEC has been gradually growing in importance particularly after economic crisis in 1997. They are expected to be one of the mechanism driving economic prosperity; especially Thailand and other post-crisis economics. Therefore, APEC Small and Medium Business Enterprise (SMEs) Ministerial Meeting, Pacific Business Forum, and the Small and Medium Enterprises Working Group (SMEWG) were set up under APEC to facilitate SMEs trading and investing in the region.

The APEC's first attention in SMEs was in 1989 but the early initiatives for SMEs were established in 1993 by setting up the Small and Medium Business Enterprise Ministerial meeting and Pacific Business Forum. The former was the meeting of SMEs to discuss about improving the environment of doing business. The later was a forum to identify issues in which APEC members should facilitate and coordinate for trading and investing in the region. The forum consisted of two private sectors from each member country and one of them was from SMEs sector.

The Policy Level Group on SMEs was established in 1995 and has objective to assist SMEs improve their competitiveness and to facilitate a more open trade and investment environment. Its term was extended and in 2000, this group was renamed the Small and Medium Enterprises Working Group (SMEWG) and granted permanent status. SMEWG's main objective is to encourage the development of

SMEs. The SMEWG provides the foundation for other APEC forum to incorporate SMEs considerations into their mandates and activities.

After the early initiatives, the attention and importance of SMEs in APEC have been fortified and included into the meeting known as APEC Small and Medium Business Enterprise (SMEs) Ministerial Meeting; the first was held in Japan in 1994. The latest was held in Australia in March 2007 and the next will be held in August 2008 in Peru. This meet has been held annually since 1994.

Several policy agendas have been proposed since 1994 responding to difficulties. The progress has been continuing in following APEC SMEs ministerial meeting. It has facilitated the growing importance of SMEs including the role of information technology and trade within group. The major successes in enhancement of information technology and international trade of APEC network can be summarized as follows:

i. Technology: Adoption and Promotion

There are many studies and projects created to enhance the technological capacity of SMEs. Under the expectation that knowledge of ICT can enhance the efficiency and coordination among SMEs in trade, a sequence of institution and programme has been created to fulfill the target.

The APEC Centre for technology exchange and Training for SMEs was established in 1996 in order to become a centre of common website accumulating electronic database of APEC member's economics. Followed by Policy level Group, coordinated work on the project Training and Certification for Small Business Counselors and the project Electronic Commerce Impact Study for SMEs had been set up in 1998-1999. The website to support the business and SMEs online was created in 2000 under the name bizaper.com. It is bounder to provide information, advice for business. It helps doing business in the region to save cost and time.

By the United States' proposal on Business Partnership Initiative in 2000, there was an agenda, led by private sector, for creation of strategic alliance between companies. Together with the ongoing APEC Business Matching and Advice Programme, that is to support need of SMEs in business matching across APEC members, the agenda stimulated SMEs to employ technology such as Electronic Data Interchange and E-Commerce for efficiency increase. According to importance of SMEs as a element in global value chain, using technology for efficiency enhancement would create benefits to all parties including SMEs itself.

The importance of SMEs and its use of ICT has been noted and promoted in APEC. Not only the studies, but policy actions on the corresponding agenda have been implemented to hasten ICT usage by SMEs in the region. Hence APEC has played on importance role for promoting trade by SMEs through the information and communication technology.

ii. International Trade: Harmonisation and Market Access.

One of the major policies to enhance the role of SMEs in trade is to promote free market mechanism. There are studies and plans to follow the policy. In 1997, APEC report "Helping Your Business Grow: Guide for Small and Medium Enterprises in the Asia-Pacific Region" studied on policy measures to address SME priorities. It mentioned the supportive role of APEC in SMEs' growth and creation of open and efficient trading schemes. Further, in order to harmonise trading in the region the Sub-Committee on Customs Procedures Collective Action Plan supported by ministers of member countries was engaged in organising custom procedure to facilitate business running and to decrease transaction cost in custom procedure for SMEs.

For market access issue, the Small and Medium Enterprises Working Group (SMEWG) has agreed on the guidelines to conduct APEC's roles for correcting and granting help on requests of SMEs group. This assistance benefited SMEs on many aspects including the need for marketplace.

Although the roles of APEC have focused chiefly on studies and policy recommendations, these have been implicitly influential for the member government to implement related policies. Being consistent with broader agreement such as World Trade Organisation, APEC's function can be a supportive source for policy execution in the agreements. This is important for SMEs that have relatively less power to advocate beneficial policies from their aspect. Endorsement of technology adoption and free trade is one of these policies. Hence APEC as one of regional network has played an influential role in promoting SMEs and economic prosperity.

Source: www.apec.org

# Appendix 15 Emic Approach of Thai culture

## Kreng jai

One of the most important and intriguing of Thai concepts is the term “kreng jai”. The kreng jai is hard to translate and explain in English, because such a concept does not exist in the Western world (Toews and McGregor 1998). Moreover, the practice of kreng jai is found in loads of daily situations. Kreng jai is used by the Thais to keep a relationship pleasant and cooperative, and accounts for a lot of the politeness and civility found in Thai society. The behaviour is dominant in most social relationships, and to a large extent, in work as well.

Kreng jai can mean many things such as being aware of another person’s feeling, saving the face of others and respecting them (Niratpattanasai 2000). Broadly speaking, kreng jai refers to an attitude whereby an individual tries to restrain his/her own interest or desire, in situation where there is the potential for discomfort or conflict, and where there is a need to maintain a pleasant and cooperative relationship.

Kreng jai is practiced most commonly by juniors towards seniors. However, kreng jai can be showed towards peers and juniors as well. There are many forms of kreng jai, for example; complying with others’ wishes or requests though may have some difficulties, reluctance to disturb or interrupt other though may have some important issues, restraint of one’s show of displeasure or anger so as not to cause discomfort to others, avoidance of asserting one’s opinions or needs, reluctance to give instructions or pass orders to a superior, or to peers with more age or experience, reluctance to evaluate a colleague’s or superior’s performance, avoiding the demand for one’s rights though it can do, etc.

## Bunkhun

Perhaps the most fundamental value that has emerged out of the vertical nature of Thai society is the concept of bunkhun (Holmes and Tangtongtavy 1997). In Thailand, the concept of bunkhun is played throughout and between all levels in the social hierarchy, creating a behavioural pattern by which people of different statuses can interact in a civil and friendly manner.

Bunkhun or indebted goodness can be explained as *"a psychological bond between someone who, out of sheer kindness and sincerity, renders another person the needed help and favor, and the latter's remembering of the goodness done and his ever-readiness to reciprocate the kindness."* (Holmes and Tangtongtavy 1997, p.30).

As indicated by the definition, there are two aspects involved in bunkhun. The first is called katanyoo rookhun, which can be translated into the words "gratitude and indebtedness" (Holmes and Tangtongtavy 1997). One must appreciate those who have done favours for one, e.g. child should feel great gratitude and indebtedness to his/her parents or one to another who has helped him/her. This feeling of gratitude and indebtedness also results in action, as the receiver of the favour does his/her best to reciprocate the favour.

The second aspect of bunkhun is called mettaa karunaa, or the quality of being "merciful and kind" (Holmes and Tangtongtavy 1997). This quality is particularly applicable to interactions between people of different status levels where the superior and strong person behaves benevolently to those below him/her.

The two bunkhun elements are played back and forth in a long cycle that ensures a respectful relationship between two people. It is possible for this bunkhun relationship to continue until the death of one of the parties and even more pass on to his/her family.

## Hai kiad

A motivating value which almost every Thai seeks in his or her work and society is known as “kiad” or honor and respect. Hai kiad means *“to give respect or show honor”* (Holmes and Tangtongtavy 1997, p.50), which can be given between all status in the hierarchy. However, showing hai kiad to junior is more at the senior’s discretion than the junior’s, but if so this will create feelings of indebtedness in the junior that will one day be returned. Thais showed hai kiad by many forms such as the wai (the traditional common Thai greeting), title and profession rank in front of the name, dress, gift giving, treat others gently and respectfully, avoid confront or criticise one in front of others, etc.

## Nam jai

A most common compound, and incidentally one of the values most prized by Thai people, is “nam jai” (Holmes and Tangtongtavy 1997). This phrase has a meaning similar to the English saying “milk of human kindness” (Toews and McGregor 1998). Nam jai means to extend kindness to others without the expectation of anything in return (ibid).

Nam jai is sometimes confused with kreng jai. Simply put, nam jai is a value that requires a person to take the initiative in demonstrating consideration for another. Kreng jai is the opposite; it usually requires a person to hold back on taking action or expressing himself or herself (Holmes and Tangtongtavy 1997).

## Hen jai

Another quality Thais admire in a good supervisor is called “hen jai” or the ability to see in to the heart (Holmes and Tangtongtavy 1997). Hen jai refers to the ability to understand or empathise with people (Toews and McGregor 1998).

For example, when you accommodate an employee whose wife has just had a baby and needs time off work, you have demonstrated the quality of hen jai. Similarly, if you take the time to listen to your staff and see how heavy their workload is before assigning them another task. If you see your staff is overloaded, you might even reconsider the assignment. You are showing hen jai.

Having the quality of hen jai also implies the willingness to listen and perhaps to be flexible on a policy, by dealing with employees and problems on a case-by-case basis. This treatment is seen as humane, and serves very much as motivator (Holmes and Tangtongtavy 1997).

## Sam Ruam

This value is derived from the Buddhist concept of the "middle path". Thais believe that one should exercise restraint in situations, which, in the West, would usually lead to displays of extreme emotions of anger, happiness, frustration, or sadness.

In Thailand, it is important not to show emotions and losing one's temper in public. Thais are very sensitive to emotion and feel very uncomfortable about the nature of anger. They are taught from a young age that one should strive to exercise restraint and maintain composure in stressful situations, avoiding extreme displays of emotion, whether one is angry, sad, or even happy (Holmes and Tangtongtavy 1997).

The more senior you are, the more you are expected to show self-control. This trait is roughly equivalent to the British desire to keep a "stiff upper lip" (Toews and McGregor 1998).

## Face saving

It is important for Thai person to have a high esteem in the eyes of family, friends, colleagues, and people in the general public. This esteem is called "face". Both in private and in business it is of paramount importance for Thai people not to lose face.

Any act of a person that would cause the loss of face for another person should therefore be avoided, especially in public. A number of actions of making one's lose face such as insult, embarrassment, confrontation, and criticism.

The person who has lost face will remember this and will maybe in the future be less willing to help the other person. In worse cases will the offended part be directly counter productive toward the other person.

Additionally, the Western way of thinking is that confrontation can be good if it means that it results in better understanding or a better way to get a job done. It is acceptable for people to be critical of each other's ideas or methods whether or not an agreement was reached. In the West, such an activity is not seen as an argument but debate (Toews and McGregor 1998).

However, Thai people usually avoid direct or public confrontation, dispute, and criticism, if given at all, are delivered indirectly or privately. Constructive criticism is not a Thai concept. Openly criticising a person is a form of violence as it hurts the person and is viewed as a conscious attempt to offend the person being rebuked. Few Thais can tolerate raised voices and expressions of frustration or anger. To be openly angry with someone might attract the wrath of the spirits, which in turn could cause violence and tragedy.

What expatriates see as evidence of hard work and constructive criticism, Thais see as disrespect, demotivation and pushiness (Toews and McGregor 1998). Thais try to find a way of reaching goals without confrontation and look for compromises in difficult situations that keeps relationships intact.
Source: Andrews and Nimanandh (2009)

# Appendix 16 Hofstede's Uncertainty Avoidance

Uncertainty avoidance can be defined as "*the extent to which the members of a culture feel threatened by uncertain or unknown situations*" (Hofstede 1997, p. 113). This feeling is, among other things, expressed through nervous stress and in a need for predictability: a need for written and unwritten rules.

Hofstede's uncertainty avoidance dimension measures the extent to which different cultures socialised their members into accepting ambiguous situations and tolerating uncertainty (Hill 2007). It concerns the degree to which people in a country prefer formal rules and fixed patterns of life, as means of enhancing security (Hollensen 2004). Members of high uncertainty avoidance cultures place a premium on job security, career patterns, retirement benefits, and so on. They also have a strong need for rules and regulations (Hill 2007).

Table A1: Uncertainty avoidance index (UAI) values for 50 countries and 3 regions

| Score rank | Country or region | UAI score | Score rank | Country or region | UAI score |
|---|---|---|---|---|---|
| 1 | Greece | 112 | 28 | Ecuador | 67 |
| 2 | Portugal | 104 | 29 | Germany F.R. | 65 |
| 3 | Guatemala | 101 | 30 | Thailand | 64 |
| 4 | Uruguay | 100 | 31/32 | Iran | 59 |
| 5/6 | Belgium | 94 | 31/32 | Finland | 59 |
| 5/6 | Salvador | 94 | 33 | Switzerland | 58 |
| 7 | Japan | 92 | 34 | West Africa | 54 |
| 8 | Yugoslavia | 88 | 35 | Netherlands | 53 |
| 9 | Peru | 87 | 36 | East Africa | 52 |
| 10/15 | France | 86 | 37 | Australia | 51 |
| 10/15 | Chile | 86 | 38 | Norway | 50 |
| 10/15 | Spain | 86 | 39/40 | South Africa | 49 |

| | | | | | |
|---|---|---|---|---|---|
| 10/15 | Costa Rica | 86 | 39/40 | New Zealand | 49 |
| 10/15 | Panama | 86 | 41/42 | Indonesia | 48 |
| 10/15 | Argentina | 86 | 41/42 | Canada | 48 |
| 16/17 | Turkey | 85 | 43 | USA | 46 |
| 16/17 | South Korea | 85 | 44 | Philippines | 44 |
| 18 | Mexico | 82 | 45 | India | 40 |
| 19 | Israel | 81 | 46 | Malaysia | 36 |
| 20 | Colombia | 80 | 47/48 | Great Britain | 35 |
| 21/22 | Venezuela | 76 | 47/48 | Republic of Ireland | 35 |
| 21/22 | Brazil | 76 | 49/50 | Hong Kong | 29 |
| 23 | Italy | 75 | 49/50 | Sweden | 29 |
| 24/25 | Pakistan | 70 | 51 | Denmark | 23 |
| 24/25 | Austria | 70 | 52 | Jamaica | 13 |
| 26 | Taiwan | 69 | 53 | Singapore | 8 |
| 27 | Arab countries | 68 | | | |

Source: Hofstede (1997, p. 113)

Thailand is ranked 30 (score 64) from 50 countries and 3 regions, compare with Australia (37th, score 51), New Zealand (39/40th, score 49), USA (43rd, score 46), Great Britain (47/48th, score 35), and Sweden (49/50th, score 29). Thailand holds much higher uncertainty avoidance score than these countries. This shows significant difference in term of uncertainty avoidance between Thai and the following cultures.

## Appendix 17 The definition of SME provided by the Ministry of Industry, Thailand

In Thailand, an official definition of small and medium-sized enterprise (SME), proposed by the Ministry of Industry in 2002. This definition is based on the number of employees and the value of total fixed assets, excluding land. The criteria of those two factors differ among the 4 business sectors: manufacturing, service, wholesale, and retail. Any firm is considered a small firm or a medium firm if either one of the above two variables meets the requirement of a smaller class. This is also the definition that the Bank of Thailand (BOT) has adopted.

Table A2: SME Definition by Thai Government

| Type | Small | | Medium | |
|---|---|---|---|---|
| | Employees | Fixed Assets (million baht) | Employees | Fixed Assets (million baht) |
| Product | Not more than 50 | Not more than 50 | 51-200 | More than 50 - 200 |
| Service | Not more than 50 | Not more than 50 | 51-200 | More than 50 - 200 |
| Wholesale | Not more than 25 | Not more than 50 | 26-50 | More than 50 - 100 |
| Retail | Not more than 15 | Not more than 30 | 16-30 | More than 30 - 60 |

Source: www.sme.go.th

# Appendix 18 SME Definition by EC (European Commission) for EU Countries

The definition of small and medium enterprise (SME) was introduced by the European Commission on April 1996. Further, on 6 May 2003 the Commission adopted a new Recommendation 2003/361/EC regarding the SME definition which replaced Recommendation 96/280/EC as from 1 January 2005.The revision takes account of the economic developments since 1996 and the lessons drawn from the application of the definition.

SME is classified in three groups including medium, small, and micro enterprise. Its definition is based on the number of employees, turnover, balance sheet total, and independence. Independence is the ultimate criterion to justify enterprise to be a SME. To be classed as in this definition, an enterprise has to satisfy the criteria for the number of employees and one of the two financial criteria, either the turnover total or the balance sheet total. In addition, it must be independent, which means less than 25% owned by one enterprise (or jointly by several enterprise) falling outside the definition of a SME or a micro enterprise, whichever may apply.

Table A3: SME Definition by EC for EU countries

| Enterprise category | Employees | Turnover | | Balance sheet total |
|---|---|---|---|---|
| Medium | < 250 | ≤ € 50 million | or | ≤ € 43 million |
| Small | < 50 | ≤ € 10 million | | ≤ € 10 million |
| Micro | < 10 | ≤ € 2 million | | ≤ € 2 million |

Source: http://ec.europa.eu; www.eicfair.com

# Appendix 19 SME Definition in Asia-Pacific Economic Cooperation (APEC) Countries

The definitions and concept of SMEs vary widely among countries in the region. A common feature is that an SME in APEC employs less than 100 people, but there are many exceptions for example Korea and Japan less than 300; Vietnam, Thailand, Chinese Taipei, and Philippines less than 200; Malaysia less than 150 (www.bei-bd.org). The most common criterion for many countries is number employed. However, definitions may vary by industry, and a monetary measure such as initial investment, capitalisation, assets, sales or turnover, and production capacity are also used in some countries to define SME (www.kadin-indonesia.or.id).

Table A4: Summary of Main Definition of SME in selected APEC Countries

| Country | Definition of SME | Measure |
|---|---|---|
| Australia | Manufacturing – less than 100 employees<br>Service – less than 20 employees | employment |
| Canada | Manufacturing – less than 500 employees<br>Service – less than 50 employees | employment |
| China | Varies with industry, usually less than 100 employees | employment |
| Indonesia | Varies.<br>Less than 100 employees or<br>annual sales less than Rp 50 billion<br>(employ size: the Department of Industry and the Central Statistical Agency<br>annual sales: Ministry of Cooperative and SMEs) | employment<br>annual sales |
| Japan | Less than 300 employees, or ¥10 million assets<br>Wholesaling – less than 50 employees, or ¥30 million assets<br>Retailing – less than 50 employees, or ¥10 million | employment<br>assets |

| | | |
|---|---|---|
| | assets | |
| Korea | Manufacturing – less than 300 employees<br>Services – less than 20 employees | employment |
| Malaysia | Varies.<br>Manufacturing – 5-150 employees, or turnover RM 250,000-RM 25 million<br>Service – 5-50, or turnover RM 200,000-RM 5 million<br>(The National SME Development Council (NSDC), approved the common definitions of SMEs across all economic sectors, for adoption by all Malaysian Government Ministries and Agencies involved in SME development, as well as financial institutions. | employment<br>turnover |
| Philippines | 10-200 employees or<br>assets PhP 1.5-60 million<br>(asset size: the Small and Medium Enterprise Development Council (SMEDC)<br>Employee size: University of the Philippines – Institute for Small Scale Industries (UP-ISSI)) | employment<br>assets |
| Singapore | Manufacturing – fixed assets investment (FAI) less than S$ 15 million<br>Service – less than 200 employees | fixed assets<br>employment |
| Chinese Taipei | Manufacturing – less than NT$ 80 million paid-in capital or less than 200 employees<br>Service – less than NT$ 100 million sales revenue or less than 50 employees | paid-in capital<br>employment<br>sale revenue |
| USA | Less than 500 employees | employment |

Source: www.apec.org.au; http://findarticles.com; www.mirc.org.my; www.dbj.go.jp; www.ccs.gov.sg; www.spring.gov.sg; www.moeasmea.gov.tw

# Appendix 20 The Interview Themes

- **Internationalisation process of the firm**

Internationalisation process means "*the process of increasing involvement in international operations*" This research is only concerned with the outward internationalisation of SMEs, for example export, investment overseas.

  - The history of the firm
  - Firm's initial international operation
  - Initial overseas market
  - Firm's international development (operations and markets)
  - The development of international sales

- **Perception of risk on internationalisation process of firm**
  - Perception of risk associate with firm's internationalisation process
  - The affect of risk perception on firm's decision and international business operation

# Appendix 21 The Interview Guide

## Firm's Internationalisation Process Behaviour

**Business start up and initial internationalisation**

- When did firm start business?
- How did firm start business?
- When did firm start international business activity?
- Did firm attempt to engage in international business activities from the inception?
- How did firm start international business activity?
- Where was the firm's initial market?
- Why did firm choose this market?
- What was firm's initial entry mode strategy?
- Why did firm choose this entry mode strategy?
- How much was proportion of international sales to total sales at the starting?

**Internationalisation process (after firm's initial internationalisation)**

- How did firm find new international market(s)?
- Where were the market(s) the firm has expanded during its international business operations?
- Why did firm choose this/these market(s)?
- How long did firm take in order to expand to new international market(s)?
- What was firm's entry mode strategy in new international market(s)?
- Why did firm select this entry mode strategy?
- How did firm develop international business strategy/activity? (If any)
- How long did firm take in development of international business strategy/activity from one strategy/activity to another? (If any)
- How did the development of proportion of international sales to total sales?

- Did firm has any de-internationalisation (e.g. reduce international sales, withdraw from the international market(s)) during international business operations? What?

## Perception of risk influences on internationalisation process

**Before the firm's initial internationalisation**

- What did you concern in order to conducting your international business?
- Why did you concern about these things?
- To what extent did you concern about these things?
- How did these concerns affect your decision to internationalise?
- How did these concerns affect your selection of initial international market(s)?
- How did these concerns affect your choice of initial international entry mode?
- How did these concerns affect the speed of your initial international business?

**After the firm's initial internationalisation**

- What were you concerned about in conducting your international business?
- Why were you concerned about these things?
- To what extent were you concerned about these things?
- How did these concerns affect your development of international strategy in your existing market(s)?
- How did these concerns affect your decision to expand into new international market(s)?
- How did these concerns affect your selection of new international market(s)?
- How did these concerns affect your choice of international entry mode in new international market(s)?
- How did these concerns affect the speed of your international expansion?

# Appendix 22 The Internationalisation Process Behaviour of the Examined SMEs

## Company AA

### *Background and International Development*

AA is a specialist manufacturer and exporter of high quality mulberry paper product. AA has its own products and also handles custom designs, according to customer's design specification. Their mulberry paper products are for example: greeting card, mini card, bag, notebook, album, craft item, bow, box and roll.

Company AA was set up in 1995 and has engaged in international market from the setting up. Since the beginning, company AA has no domestic customer. AA has involved only in international markets by exporting activities, and 100% of its products are exported to overseas markets.

### *Markets Served*

France, Italy, and Spain are among AA's initial international markets. Subsequently, AA's international markets were expanded to other countries in Europe and Asia. At present, the main international markets for AA are European markets, mainly Italy, France, Germany, Spain, Portugal, and Greece. With complementary international markets include Middle East, mainly Saudi Arabia, Kuwait, and United Arab Emirate, and other Asian countries mainly Japan.

### *International Entry Mode Strategy*

Indirect export was AA's initial international entry mode. In the first two year, most of their customers were foreign retailers, combined with a few buying agents. They travelled around to buy local products. These customers bought products from AA for their export. During that time, AA's customers managed the export of products to overseas markets by themselves.

In order to expand its sales, AA had to search for new customers. Therefore, AA consulted Department of export promotion, Ministry of commerce (DEP) and began to be DEP's member. In 1997, AA joined its first international trade fair with a support from DEP in Thailand. With a support from DEP, AA later went to test international markets by joining many international trade fairs in several countries such as Germany, Hong Kong, Japan, and USA. These brought AA new overseas customers.

International trade fair becomes AA's main channel to find its customers. Other channels are included website and DEP's selected exporter list where potential international customers who would like to buy the specific kind of product from Thai exporter can select and match their business together.

Since AA participates in international trade fairs, its international entry mode strategy was developed into direct exporting. Furthermore, AA's new customers turned out to be mostly wholesalers and buying agents who trade in the international trade fairs. At present, AA uses export as its only international entry mode and handles export activities by the firm itself. Direct export is the firm's present international entry mode strategy.

***Summary of Company AA's Internationalisation Process***

- AA was established as an international firm.
- AA has engaged in international markets since its inception.
- All of AA's products have been exported to overseas markets.
- AA's initial international markets are France, Italy, and Spain.
- The current main international markets for AA are European markets, and complement with Middle East countries and Japan.
- AA started its internationalisation by employing indirect export and later developed its international activity into direct export.

- AA has not developed its international activity further than export.
- At present, AA is using only direct export as its international activity.

## Company BB

### *Background and International Development*

Established in 2004, company BB is a producer and exporter of handmade soap and spa products by using traditional methods and natural ingredients. Company BB has engaged in both domestic and overseas markets since the start-up.

BB has received many international orders and its international sales have been increased quickly. Within the first year of start-up, BB achieved international sales of 50% of its total sales. After two year of the start-up, BB had gained average 80% of total sales from international markets, and 20% of sales came from domestic market. While the aromatherapy and spa business starts to grow domestically, the proportion of domestic sales has been increased. Currently, overseas sales account for 70% of BB's total sales and 30% come from domestic market.

### *Markets Served*

USA and Canada are BB's initial international markets. After that, BB's international markets were expanded to several Asian and European countries. At present, BB's primary international markets are including USA, Canada, Japan, Hong Kong, Korea, Taiwan, Singapore, Malaysia, Saudi Arabia, and Kuwait. European markets such as UK, Spain, The Netherlands, Germany, and Belgium are BB's secondary international markets.

### *International Entry Mode Strategy*

At the start, BB did not deal with export directly. BB initially engaged in international market by indirect export. BB's international markets were explored by foreign buying agents who came to visit and ordered BB's products. These foreign buying agents bought many kinds of local product for their clients and managed export by themselves.

In the second year of operation, BB began to be a member of Department of export promotion, Ministry of commerce (DEP), and started to involve in international trade fairs with a support from DEP. Since then, BB has joined at least two international trade fairs annually which mainly in Thailand, and Hong Kong. Joining international trade fairs is the turning point for company BB and becomes BB's major channel to find its international customers. Furthermore, BB started to employ direct export from the orders it gets from international trade fairs.

BB's customers also come from other channels which are website and DEP's selected exporter list. BB's international customers are included wholesalers, retailers, and buying agents. Presently, BB deals with both direct and indirect export which is depended on the requirement of its international customers. However, BB major international activity is direct export.

### *Summary of Company BB's Internationalisation Process*

- BB has involved in both domestic and international market since the beginning.
- In the first year, half of the total sales came from overseas markets.
- BB currently receives 70% of total sales from international markets.
- BB's initial international markets are USA and Canada.
- BB's present major international markets are included USA, Canada, and Asian countries. European markets are BB's minor international markets.
- BB initially used indirect export in order to get into its international markets.

- Soon after, BB adapted international activity and started to employ direct export.
- BB has not expanded beyond export activity.
- Presently, BB deals with its international markets by using both direct and indirect export.

## Company CC

### *Background and International Development*

Company CC is a producer and exporter of bead products. CC is the pioneer of beadworks business in Thailand. CC's products are costume jewellery such as necklace, ring, earring, bracelet, and other accessories which are made from several kinds of beads.

The business was started in 1996 as a small beadworks retail shop for creating and sale bead products. During the first two year, CC served only domestic retail market and had become well known to both local people and tourists. In the third year of operation, CC began to involve in its overseas market and had received averagely 30% of its total sales from international sales annually during the first three years of its international involvement. CC's international sales were not much increased during this period. CC's international sales have been increased dramatically after five years of its inception since it starts to participate in international trade fairs in 2001. CC has found many international customers in international trade fairs and received orders for export from them.

As the international market growth, the owner decided to close the retail shop in 2004 and has concentrated on international markets since then. At present, company CC gains 90% of its total sales from overseas markets, and 10% of its total sales come from domestic market.

***Markets Served***

Company CC’s first overseas market is Japan. Later, CC’s international markets were expanded to Europe, other countries in Asia, USA, and Australia. CC’s current international markets are including Japan (mainly), Hong Kong, Singapore, France, and Italy, USA, and Australia.

***International Entry Mode Strategy***

Company CC had not engaged in overseas market until the third year of its operation. In 1998, CC received orders from Japanese retailers. At that time, CC was only a producer and it did not handle any export of its products. Customers came to visit the shop for pressing orders and managed export by themselves. This was the starting point of CC’s international involvement.

In 2001, CC started to be a member of Department of export promotion, Ministry of commerce (DEP) and joined its first international trade fair domestically by the support from DEP. With success, CC continues to participate in several international trade fairs both domestic and overseas where not far from home such as Hong Kong and Singapore. By participation in international trade fairs, CC has found many international customers and has received orders for export from them.

Since CC participates in international trade fair, it became more active in term of export. At this point, CC started to manage its own export activities. The international trade fair happens to be the main place to find international customers. In addition, CC has a website and name in DEP’s selected exporter list where potential international customers can find CC and match their business together. CC’s international customers comprise of wholesalers, retailers, and buying agents. Presently, CC manages all of its export activities. Direct export is the only CC’s international entry mode strategy.

***Summary of Company CC's Internationalisation Process***

- CC was set up as a domestic firm and had conducted business with only domestic market during the first two years of its operation.
- CC began to involve in international market in the third year of its inception.
- During its first three years of international involvement, CC had received international sales averagely 30% of total sales.
- CC presently gains 90% of its total sales from overseas markets.
- CC's first international market is Japan.
- At present, CC's international markets are included Japan (mainly), Hong Kong, Singapore, France, and Italy, USA, and Australia.
- CC initially internationalised by employing indirect export.
- Later, CC adjusted its international activity and began to manage its own export.
- CC has never developed its international activity further than export.
- At present, CC employs only direct export in order to deal with its international markets.

## Company DD

***Background and International Development***

Company DD is a manufacturer and exporter of high fired stoneware handicrafts with traditional wood ash glaze, or so-called celadon. DD's products are included tableware and home decorative items such as figurines, vases, and lamps.

Company DD was established in 1981. At the start-up, DD was a small manufacturer and retailer which managed the business only in domestic market. Overseas markets had not been DD's market. DD's sales mainly came from foreign tourists. However, this brought in DD's potential international customers. It took quite a while until the eighth year of the establishment, DD started to receive orders for customers' export.

At that time DD's international sales accounted for 25% of total sales. After that, DD's international sales have been gradually increased. Currently, DD receives 45% of total sales from international sales. DD's main market has still been remained on domestic market where the majority of sales come from foreign tourists, domestic retailers, and domestic luxury hotels.

***Markets Served***

Company DD's initial international market is UK. DD's international markets were expanded to several European countries, USA, and some Asian countries. DD's present international markets are including UK, France, Germany, Spain, and Switzerland, USA, Australia, Japan, India, Malaysia, and Singapore.

***International Entry Mode Strategy***

As DD's products are well known among foreign tourists, DD's international markets were discovered by foreign retailers who previously came to Thailand as tourist. They came to visit DD and bought its products for their own export. During that time, DD was only a manufacturer and sold its products at the Ex-factory price. DD did not handle export for its customers. DD's customers managed export by themselves.

Since DD began to involve in international markets by indirect export, it initially noticed the importance of international market. Therefore, DD looked for the way to find more international customers. In 1991, DD registered to be a member of Department of export promotion, Ministry of commerce (DEP). By the support from DEP, DD began to join in international trade fair domestically, and some international trade fairs close to Thailand such as Singapore and Malaysia. International trade fairs are the place to meet DD's potential international customers and bring DD's new international customers. Furthermore, DD began to manage its own export since it receives overseas orders from international trade fairs.

However, DD recently engages in only international trade fair in Thailand since DD's international customers are not usually press their order at international trade fair. They would like to visit DD's factory and press their orders. International trade fair is only the place to meet customers for DD. Consequently, DD decided to stay primarily at its place and wait for customers to come. Other channels which international customers can find DD are website and DEP's selected exporter list. DD's international customers are mainly wholesalers and retailers, with few buying agents.

Currently, DD handles both direct and indirect export. This is flexible and depended on the requirement of DD's international customers. However, the majority of DD's export activity is indirect export since most of DD's international customers come to visit DD for ordering products, and they are willing to handle export by themselves.

***Summary of Company DD's Internationalisation Process***

- DD was initially set up to serve only domestic market.
- DD started to involve in international market in the eighth year of the start-up and obtained 25% of total sales from its initial international sales.
- Currently, DD's international sales account for 45% of total sales.
- DD's initial international market is UK.
- At present, DD's international markets are included UK, France, Germany, Spain, and Switzerland, USA, Australia, Japan, India, Malaysia, and Singapore.
- DD started to involve in international markets by using indirect export.
- Thereafter, DD developed its export activity and began to employ direct export.
- DD has never expanded further than export.
- DD currently handles its export by employing both direct and indirect export.

## Company EE

### *Background and International Development*

Company EE is a manufacturer and exporter of fine stoneware ceramic products. CC is a full service and well organised factory with over 1,000 unique designs in its current collection including tableware and accessories, vases, wall art, decorative items, and garden accessories. CC is also capable of making its clients custom designs.

Company EE was found in 1987 with support from Japan overseas development corporation (JODC). During the first year, EE managed its business domestically and sold mostly of its products to foreign tourists. EE started involvement in international market in its second year of operation and gained 30% of total sales from international sales. EE's international sales were not much increased until EE began to participate in international trade fair in 1995. Since then, EE's international sales have been progressively increased. Presently, 90% of EE's total sales come from international markets and 10% gain from sales in domestic market.

### *Markets Served*

Japan is the first overseas market for EE. EE's international markets were expanded to USA and Europe mainly UK. EE's current international markets are largely USA and UK, complements with Japan and new international markets such as United Arab Emirate, India, and China.

### *International Entry Mode Strategy*

DD began its international market involvement by indirect export. The relationship with JODC brought EE Japanese wholesalers. These wholesalers came to buy EE's products and managed export to Japan. EE had received continuous orders from

Japanese market and Japan had been remained as EE's only international market for several years.

EE had involved in international market by using only indirect export. Until 1995, EE decided to be a member of Department of export promotion, Ministry of commerce (DEP) and attended international trade fairs both domestic and abroad with support from DEP. This opportunity brings EE to be known by potential international customers and also brings EE's international customers. EE's international customers are included wholesalers, retailers, and buying agents. In term of export activity, EE developed itself to become an exporter and has handled its own export since it obtains international orders from international trade fairs.

EE also has website and name on DEP's selected exporter list where EE's potential international customers can find and match their business. Currently, EE manages both direct and indirect export according to customer's convenience and requirement. Direct export is EE's main international entry mode strategy. Nevertheless, some EE's international customers still come to buy products at its factory and deal with export by themselves.

***Summary of Company EE's Internationalisation Process***

- EE initially managed its business only in domestic market.
- EE started international market involvement in its second year of inception.
- EE has achieved averagely 30% of total sales from international sales during its first seven year of international involvement.
- At present, EE's international sales account for 90% of its total sales.
- EE's initial international market is Japan.
- EE's present international markets are mainly USA and UK, with minor international markets in Asia such as Japan, United Arab Emirate, India, and China.
- EE employed indirect export for its initial step into international market.
- Afterwards, EE developed its export activity into direct export.
- EE has never developed its international activity further than export.

- EE presently engages in international markets by employing both direct and indirect export.

## Company FF

***Background and International Development***

Company FF is a manufacturer and exporter of the wide range of wooden products, including home decorative items, gifts, and souvenirs. Company FF was found in 1989 as a small manufacturer and retailer which served mainly domestic market, especially foreign tourists. In the beginning, FF did not aim for international market. It initially served only domestic market. However, FF had received few unsolicited sales for overseas markets in the first year of inception. Within three years of the start-up, FF obtained 30% of total sales from international markets. While international sales were continuously increased, FF turned to concentrate on international markets. Presently, FF receives 90% of total sales from international markets and domestic market sales account for 10% of total sales.

***Markets Served***

UK, France, and The Netherland are among FF's initial international markets. FF's international markets were expanded to USA and several European markets. FF's current main international markets are USA and UK, together with some European countries such as France, The Netherland, Italy, Belgium, and Spain.

***International Entry Mode Strategy***

FF had engaged in international markets by employing only indirect export for eight years from the start-up. During that time, FF was only a manufacturer. FF's international customers bought its products and managed export by themselves.

In 1997, FF commenced to be a member of Department of export promotion, Ministry of commerce (DEP) and began to join in international trade fair in Thailand and overseas mainly in Hong Kong and Germany. International trade fair is the major channel to find new international customers for FF. Furthermore, FF's potential international customers also can find FF via its website and DEP's selected exporter list. FF's international customers are including wholesalers and buying agents.

Participation in international trade fair made FF to build up its export activity and turn into exporter. From overseas orders FF receives from international trade fair, FF began to manage its own export. Currently, FF employs both direct and indirect export for its export activity. Most of FF's international sales are managed by direct export. However, FF has still handled indirect export because some international customers buy FF's products and would like to manage their own export.

***Summary of Company FF's Internationalisation Process***

- FF initially served only domestic. However, it started to engage in overseas market in the first year of its inception.
- FF achieved 30% of total sales from international sales within three years of the start-up.
- FF currently receives 90% of its total sales from international markets.
- FF's initial international markets are UK, France, and The Netherland.
- FF current international markets are USA and Europe, particularly UK.
- FF started to involve in international market by using indirect export.
- Later, FF adjusted its export activity and began to carry out direct export.
- FF has never developed its international activity further than export.
- FF currently employs both direct and indirect export in order to serve its international markets.

## Company GG

### *Background and International Development*

Established in 2003, company GG was originally formed as a manufacturer and exporter of home decorative items, accessories, and gifts made from Thai silk material. GG is highly internationalised from inception. In the first year, GG received 70% of its total sales from overseas markets and the business had continued to grow.

Until 2005, international sales began to drop since there are more competitive competitors in international market of silk products such as China, Vietnam, and India. These competitors sell their products with competitive price and customers started to buy products from them. In order to survive and grow, GG looked for another business unit. In 2006, GG set up its new business unit to produce and export of silver jewellery products. This business unit has succeeded and continue to grow. Subsequently, GG has shifted to concentrate on silver jewellery business. However, GG has still produced and exported silk products. Currently, GG provides export for two product ranges with 30% of its international sales come from silk products and 70% from silver jewellery products. GG presently receives 90% of total sales from international sales.

### *Markets Served*

For silk products, GG's initial international markets are UK and France. Subsequently, GG's international markets were expanded to several countries in Europe such as Italy, Spain. GG has maintained its international markets within Europe. Presently, GG's international markets for silk products are mainly UK, France, Italy, and Spain.

In another business unit (silver jewellery products), GG's initial international markets are also UK and France. GG's international markets were expanded internationally, however European market is still GG's main international market for its silver jewellery products. At present, GG exports its silver jewellery products to Australia, Russia, and many European countries such as UK, France, Spain, Germany, and Switzerland.

### *International Entry Mode Strategy*

GG has involved in international market by conducting direct export since the start-up. Direct export has been employed for GG's both product ranges. GG is a member of Department of export promotion, Ministry of commerce (DEP) from its inception. Therefore, GG has participated in various international trade fairs both domestic and overseas mainly Hong Kong and Germany since the first year of its business. Moreover, GG has websites and a name in DEP's selected exporter list where potential international customers can find and match their business with it. However, international trade fair is the major channel for GG in order to meet and acquire its international customers. GG's international customers are wholesalers and retailers for its both business units.

While international sales of silk products were declining, GG decided to join only in domestic international trade fair for its silk products and shifted to concentrate on silver jewellery products. Silver jewellery products have been regularly exhibited and traded in both domestic and overseas international trade fairs.

For international market involvement, GG has engaged in export activities for entire of its operation. Since the beginning, GG has never changed its export activities from direct export. Currently, GG still uses direct export as its only international entry mode strategy.

### *Summary of Company GG's Internationalisation Process*

- GG has involved in both domestic and international market since the beginning of its business.
- In the first year of inception, GG received 70% of its total sales from overseas markets.

- GG presently gains 90% of total sales from international markets.
- GG's initial international markets are UK and France.
- GG's current international markets are European markets (mainly), Australia, and Russia.
- GG has employed direct export in order to serve international market since the beginning of its business.
- GG has never developed its international activity beyond export.

## Company HH

### *Background and International Development*

Company HH is a manufacturer and exporter of handmade candles. HH's candle collections are included scented candle, translucent candle, tealight candle, fantasy candle, and floating candle. HH also handles special design for make to customer's order.

Company HH was established in 1997. During the first year, HH had engaged only in domestic market. Initially, international market was not HH's attention. HH's international market was discovered in the second year of its operation and brought HH 20% of total sales. In 1999, HH began to participate in international trade fair and received very good feedback. Since then, HH's international sales had been increased dramatically. Within three year of its inception, HH's international sales were reached 60% of total sales.

HH's international sales had been increasingly grown. At its peak, HH's international sales accounted for 80% of total sales. Until 2005, HH's international sales started to be decreased due to the rise of competition from competitive foreign competitors in the international market, especially Chinese manufacturers. They can produce candle products with lower cost and sell in competitive price. Therefore, customers turn to buy from these competitors. On the other hand, domestic market has more interest in candle products. This boosts up the domestic sales. At present, international sales account for 60% of total sales and 40% come from domestic market.

### *Markets Served*

HH's first international market is USA. HH's international markets were extended to Europe and Asia. Currently, HH's major international market is European market mainly UK, France, Germany, The Netherland, and Poland. HH's minor international markets are including USA and Asian countries such as Malaysia and Singapore.

### *International Entry Mode Strategy*

HH started to involve in international market by using indirect export. Initially, HH did not handle its own export since HH's initial international customers were overseas wholesalers, and they were willing to manage their export by themselves. In 1999, HH registered to be a member of member of Department of export promotion, Ministry of commerce (DEP). By the support from DEP, HH began to participate in international trade fairs both domestic and overseas. This also motivated HH to adjust its export activity and started to manage export by the firm itself.

Joining in international trade fairs was the important step for HH to involve in international markets and brought HH more international customers. Nevertheless, HH recently has not much good feedback from overseas international trade fairs like in its past and they are also higher expense. Therefore, HH decided to withdraw from overseas international trade fair and currently participates in only domestic international trade fair. In addition, there are also other channels where customers can find HH. HH has website and a name in DEP's selected exporter list where potential international customers can find and match their business. HH's international customers are included wholesalers, retailers, and buying agents.

HH has employed export as its only way to gain entry in international market. Currently, HH handles both direct and indirect export in order to serves its international markets. These are depended on customer's condition. The majority of HH's international activity is indirect export since most of HH's international customers are willing to manage their own export.

***Summary of Company HH's Internationalisation Process***

- HH originally engaged in only domestic market at the beginning of its business.
- HH began its international market involvement in the second year of inception.
- Within three year of its inception, HH achieved 60% of total sales from international sales.
- HH currently receives 60% of total sales from international markets.
- HH's first international market is USA.
- HH's present international markets are included European countries (mainly), USA, and Asian countries.
- HH initially served international markets by employing indirect export.
- Soon after, HH developed export activity and started to employ direct export.
- HH has never employed international activity other than export.
- HH currently serves its international market by dealing with both indirect and direct export.

# Appendix 23 Summary Tables for Research Process Characteristic and Initial Stated Reason

## Company AA

| Research Process Characteristic | Initial Stated Reason |
|---|---|
| Decision to Internationalise from inception | Relatively high demand for product compared to domestic market. Lack of domestic export competitor |
| Choice of Export Entry Mode | Paucity of workers, lack of budget, lack of resources for other modes such as strategic alliances or direct investment. Export is considered the easiest method of international expansion |
| Decision not to manage own export activity from inception of firm's international involvement | Considered too small. Didn't possess enough knowledge. Didn't possess enough experience. Preferred to wait for customers to come to them |
| Progress to self-management of export process | Knowledge/confidence gained from International Trade Fair participation |
| Concerns over self export management | None. Considered it a wholly beneficial move in order to enhance image of company and gain more trust from customers – both domestic and international |
| Failure to expand beyond exporting | Considered too difficult and too risky. Paucity of money, paucity of staff. Lack of capability. Fear of taking loan, do not want to be in debt abroad as lack of trusted friends to help if any problems arise. |
| Choice of international market | Customers determine which markets are served |

## Company BB

| Research Process Characteristic | Initial Stated Reason |
|---|---|
| Decision to Internationalise from inception | Perceived opportunity, High perceived demand and size |
| Choice of Export Entry Mode | Export is possible to do. |
| Decision not to manage own export activity from inception of firm's international involvement | Followed customers' need. Didn't even think of manage own export – happy just to sell our products |
| Progress to self-management of export process | Due to assistance from International Trade Fair experience |
| Concerns over self export management | It was a challenge but didn't think of it at the time. |
| Failure to expand beyond exporting | Not necessary for us, we are small, we are happy with things as they are. Don't want to borrow money. Don't want to have to build new team overseas. |
| Choice of international market | Customers self-select. Sell to country where customers want |

## Company CC

| Research Process Characteristic | Initial Stated Reason |
|---|---|
| Decision to Internationalise – Why not from Inception? | Felt it was too big, 'far from our knowledge', lack of knowledge |
| Decision to Internationalise | Reacted to its customers' demand |
| Choice of Export Entry Mode | Reacted to customers' requirement |
| Decision not to manage own export activity from inception of firm's international involvement | Lack of thought, lack of knowledge. |

| | |
|---|---|
| Progress to self-management of export process | International trade fair and provision of information and training |
| Concerns over self export management | No concern |
| Failure to expand beyond exporting | Still worry about this. Worry things go wrong. Worry investment may not be worth the expense. Do not want any more 'obligations.' |
| Choice of international market | Depends on customers. Don't aim for any particular market. |

## Company DD

| Research Process Characteristic | Initial Stated Reason |
|---|---|
| Decision to Internationalise – Why not from Inception? | No need, many tourists to buy. Considered it 'far from us'. Lack of knowledge. Preference for managing the business 'by our understanding.' Too small. Limited production capacity. |
| Decision to Internationalise | Reacted to its customers' demand |
| Why not expand Production Capacity? | Do not want to take out loan, do not want to be in debt. Wish to avoid risky situations |
| Choice of Export Entry Mode | Reacted to customers' requirement |
| Decision not to manage own export activity from inception of firm's international involvement | Lack of knowledge. Followed customers' requirement. Chose easiest way. Lack of desire for anything more difficult. |
| Progress to self-management of export process | Want to develop sales. Decision to join International Trade Fair. |
| Concerns over self export management | Not many. Saw that other sellers from the ITF could do with some success. So |

| | |
|---|---|
| | followed their example. |
| Failure to expand beyond exporting | Owner too old. Lack of trust in staff to manage alone. Limited resources. Too small. Too risky, fear of losing capital. |
| Choice of international market | Led by customers. |

## Company EE

| Research Process Characteristic | Initial Stated Reason |
|---|---|
| Decision to Internationalise – Why not from Inception? | International market too complicated; no knowledge |
| Decision to Internationalise | Reacted to its customers' demand |
| Choice of Export Entry Mode | Reacted to customers' requirement |
| Decision not to manage own export activity from inception of firm's international involvement | Lack of knowledge; not ready |
| Progress to self-management of export process | Through international trade fair |
| Concerns over self export management | General condition of trade in international trade fair supported by government; because other sellers do it |
| Failure to expand beyond exporting | Lack of capability; need lots of money and high risk involved; do not dare to expand beyond exporting…; too small; lack of confidence; lack of readiness…. |
| Choice of international market | Depends on customers. |

## Company FF

| Research Process Characteristic | Initial Stated Reason |
|---|---|
| Decision to Internationalise – Why not from Inception? | Lack of knowledge, Overseas market is too far and too difficult |
| Decision to Internationalise | Reacted to its customers' demand |
| Choice of Export Entry Mode | Reacted to customers' requirement |
| Decision not to manage own export activity from inception of firm's international involvement | Lack of knowledge/understanding; Followed customers' requirement; concerns about over-extending themselves |
| Progress to self-management of export process | Orders from previous customers decreased; need to look for other customers; decided to join in international trade fair |
| Concerns over self export management | Never done it before |
| Failure to expand beyond exporting | Worries about economy; need to be careful; concerns beyond capability; may not be suitable for products; may used lot of budget; possibly not worth investment; not courageous enough |
| Choice of international market | React to customer interest |

## Company GG

| Research Process Characteristic | Initial Stated Reason |
|---|---|
| Decision to Internationalise from inception | Dislike domestic commercial system, Perceived opportunity, High perceived demand and size, Lack of international competitor |

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|---|---|
| Choice of Export Entry Mode | Export has the highest marketing opportunity |
| Concerns re; exporting at beginning | Some concerns about risk; felt would like to try |
| Decision to manage own export activity from inception of firm's international involvement | Because joined international trade fair from the start |
| Concerns over self export management | A little bit but already decide to go ahead. |
| Failure to expand beyond exporting | Feeling may be too difficult; need to be very careful; wish to proceed step by step; feels like a pipedream; have restriction on funds and not have much money; restricted by lack of resources; not enough courage; maybe problems they cannot handle |
| Choice of international market | Depends on customers. |

## Company HH

| Research Process Characteristic | Initial Stated Reason |
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| Decision to Internationalise – Why not from inception | Beyond their understanding; too difficult; do not want to become involved in unfamiliar |
| Decision to Internationalise | Reacted to its customers' demand |
| Choice of Export Entry Mode | Reacted to customers' requirement |
| Decision not to manage own export activity from inception of firm's international involvement | Lack of knowledge; further than our idea; lack of readiness, lack of capability at that time |
| Progress to self-management of export | Through international trade fair |

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| process | |
| Concerns over self export management | Worried but had to do it |
| Failure to expand beyond exporting | Wish to proceed step by step as per business policy; choose lowest risk strategy; not our plan to go beyond exporting; to difficult for us; high expense will mean borrowing and debt which we do not want; too difficult; far and so difficult to manage; uses a lot of money…. |
| Choice of international market | Led by customers. |

# Appendix 24 Interviews Transcription

## Company AA

AA engaged in international market from the inception. Although AA aimed at export from the beginning, AA did not initially manage its own export. Customers bought its product and export by themselves. Later, AA adjusted its export activity and has managed its own export. Presently, AA manages all its export by the firm itself.

| Question | Answer |
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| Why did you decide to engage in international market from the inception? | Managing director: “We would like to sell our products to overseas market. We have knowledge for production of mulberry paper. Domestic market does not have much demand for this kind of product. It is low possibility to success. However, there have lots of demands in overseas market.”<br><br>Deputy managing director: “We attempted to conduct exporting from the beginning of our business. While it has demand for mulberry paper products in international markets and they were not many local competitors have conducted export for this kind of products.” |
| Why did you choose export | Managing director: “In the beginning, we did not have many workers and budget to invest in the business. |

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| as your business strategy? | Exporting might be the best choice for us to do as it has the highest potential and suitable for our resources."<br><br>Deputy managing director: "I think export is the easiest way to get into international market. Moreover, export was suitable for our capability. It did not require huge investment." |
| Why didn't you manage your own export activity from the inception? | Managing director: "We started from very small. We did not have much knowledge about exporting but we would like to try. At that time, Thailand was very popular. There were many foreign buyers came to search for handicraft products. They came to us and bought our products. We did not have to handle export. Our customers did it by themselves."<br><br>Deputy managing director: "At that time, Thai local products were very popular and many foreign buyers came to search for them. At the start, we only produced products and waited for international customers to come. We had no experience and knowledge about export activities. So, when we received orders from foreign customers, we did not handle export. Our customers did it by themselves." |
| Why did you develop your export and begin to manage your own export? | Managing director: "When we started to engage in international trade fairs, the characteristic of our customers was changed. They became mostly wholesalers and buying agents who trade in the international trade fairs. They do not handle the export of product. Therefore, we have to handle export for them." |

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| | Deputy managing director: “Because we joined international trade fair. We are supposed to manage our export. Every seller who participates in international trade fair normally do it, except customers request to do it by themselves.” |
| Did you have any concern in order to manage your own export? | Managing director: “We were willing to do because we would like to be an exporter. Managing our own export would bring us a better image and trust from our customers because we can prove to them that we have standard and can handle our own export activity.”<br><br>Deputy managing director: “I did not think it would cause us any problem. We had prepared for our own export. We knew that we would do it.” |
| Why didn’t you expand further than export? | Managing director: “We have not thought about establishing sale subsidiary abroad or any investment abroad. We are happy with our current export activities. It is better worthwhile to operate domestically and sale our products abroad. Investment abroad is very difficult and too risky for us. We do not have enough money as well as capable men. Moreover, we do not want to ask for loan. We do not want to be in debt. If we stay in our country and we have some problems, they are always someone helping us. This is Thai style.”<br><br>Deputy managing director: “I think it may too difficult for us. I think we may not do it. Currently, maintaining export is very busy for us. We have lots of things to do.” |

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| | Managing director: “We do not want to do that. Investment abroad is not appropriate for our business. If we stay here and we join in international trade fair, we can find our customers. It may not necessary for us to expand further than export.”<br><br>Deputy managing director: “We may not have ability enough to do it. I think we do not have finance to afford it and it will be difficult to manage because it is far from here.” |
| How did you select your international market? (if one country means one market) | Managing director: “We produce products and exhibits in several international trade fairs both domestic and abroad for example Germany and Hong Kong. Our customers will find us mainly in these international trade fairs. We draw on our products to attract our potential customers. If they come in, so means they interested in our products.”<br><br>Deputy managing director: “We do not actually select our international markets. It is our customers’ decision whether or not they want to purchase our products. We sold our products to everyone who would like to buy them.” |

## Company BB

BB would like to deal with international market from BB has involved in international market from the beginning (serve both domestic and overseas market). However, it did not initially manage its export. BB employed indirect export for the beginning. Then, BB adapted its export activity and started to employ direct export at the second year of the inception. At present, BB handles both direct and indirect export.

| Question | Answer |
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| Why did you decide to engage in international market from the inception? | Managing director: "I did not intend to conduct this business for my career. At that time, I just came back from USA and I was free. I was looking for something to do before I could find my new job. I did not expect anything from this business. In fact, it was not a thing which I anticipated. I wished to do it as my temporary job and then I would go for the job which I graduated for. It was a matter of being at the right place in the right time – the aromatherapy and spa business was starting to boom. I soon kept getting more orders every month, so I did not get another job. I continue this business."<br><br>Marketing manager: "Our original idea was only we wanted to do business with foreign customers. I did not mean foreign tourist. I meant overseas market. I thought overseas market is big. There is lots of opportunity and export is possible for us to do. At least, we could produce our products here and waited for customer to come and buy them." |
| Why didn't you manage your | Managing director: "At the start, our foreign customers came and pressed orders. We did not manage export. They |

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| own export activity from the inception? | managed export by themselves. I thought that way was fine for us. I just started my business. I did not think of anything other than I could sell my products."<br><br>Marketing manager: "It was our customers' need to manage their own export. At that time, our foreign customers were buying agents. They searched for many local products for their clients and manage to export these products by themselves." |
| Why did you develop your export and begin to manage your own export? | Managing director: "We tried to find more customers. We were advised to try joining in international trade fair in Thailand. So, we learned what we have to do when participate in international trade fair. If we would like to receive order from foreign customers in international trade fair, we should manage export by ourselves. Most of them do not manage export."<br><br>Marketing manager: "When we started to join in international trade fair, we had to develop our export activity. In international trade fair, we should handle our export activity." |
| Did you have any concern in order to manage your own export? | Managing director: "I did not think of anything. We would like to find more customers and expand our sales. So, we went to international trade fair. We had to manage our export for customers."<br><br>Marketing manager: "There was quite challenge because it was quite different from the activities which we did |

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| | before. We had to learn about how to manage export of our products. However, I think it was good for us. We could develop ourselves to become an exporter and handle our own export. I thought we can do this.” |
| Why didn’t you expand further than export? | Managing director: “If we would like to expand overseas, we have to borrow money and build the new team. It seems like creating a new business. We do not know that it will be worthwhile or not. So, we do not want to do that.”<br><br>Marketing manager: “We have not thought about investing abroad neither sale subsidiary nor production. It is not necessary for us. Although, we are very small and we have limited production capacity, we are happy with our position right now.” |
| How did you select your international market? (if one country means one market) | Managing director: “We do not have target market or concentrate on any market. We have never selected our international customers or overseas markets. We sell our products to every customer who orders.”<br><br>Marketing manager: “We have not selected our market. We do not mind where our products will be exported. We wish only we have customers buy our products.”<br><br>Managing director: “We are not someone who makes decision about overseas markets or where our products will be sold. Our international customers have their markets where they manage to sell products.” |

## Company CC

CC started as domestic producer and retailer. Initially, it served only domestic market. CC started to involve in international market by indirect export. This was because of CC received unexpected orders from overseas customers. Later, it started to engage in international trade fair and improved to manage export by itself. Currently, CC manages export for its overseas clients by its own.

| Question | Answer |
|---|---|
| Why didn't you decide to engage in international market at the beginning of your business? | Managing director: "In the beginning, I had never thought about overseas market or exporting. It might too big for us...too far from our knowledge... I wished to have my own small business. Originally, I would like to create my products and retail them in domestic market."<br><br>General manager: "It was not in our thought. At that time, we had no idea about overseas market. We just wanted to have our own business. Overseas market might far from our knowledge. We did not think about it."<br><br>Managing director: "I was not interested in export. At that time, my domestic sales were very good. We were very busy with domestic sales. So, we did not think about overseas market."<br><br>General manager: "It might because we did not know how to do export, how to find customer. We knew nothing about export." |

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| How did you begin to involve in international market? | Managing director: “It was started from Japanese retailers. They have retail shops in Japan. I did not realise that there were these group of customers. They came to order my products. This was the starting point.”<br><br>General manager: “It was not really export. We did not export our products. We had Japanese customers came to our shop and ordered our products for their export. They managed export by themselves. I did not know how they found us.” |
| Why didn’t you manage your own export activity for the beginning of your international involvement? | Managing director: “We were not ready to do it. We just produced and sold products only in our shop. We did not have a plan for any export. So, we did not prepare for it.”<br><br>General manager: “We did not even think about export. Managing our own export was even further than our idea. We did not know anything.” |
| Why did you develop your export and begin to manage your own export? | Managing director: “Actually, we had not been interested in adjusting our export activity before. We adjusted our export activity because we joined in international trade fairs. In international trade fairs, customers generally do not deal with export activity. We had to adjust our way in order to do business with them.”<br><br>General manager: “We started to participate in international trade fair. So, we had to manage our export for our customers.” |

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| Did you have any concern in order to manage your own export? | Managing director: "It had a little because we had never managed our export. However, it was like a forced situation. We would like to join in international trade fair. We had to manage export for our clients."<br><br>General manager: "It was some at the beginning. However, we prepared ourselves before we could do it. They had information and training organised for everyone who want to be exporter."<br><br>Managing director: "I thought this way of doing business would bring us more customers and we could get bigger orders from international trade fairs. This would make us better known by customers as well." |
| Why didn't you expand further than export? | Managing director: "We may not expand further than export. We have to think very hard if we would like to expand further than we do presently. I has still concerned about exporting. Doing business at this time is much more difficult than the past. We are happy with our present position and try to maintain it."<br><br>Managing director: "I used to ask myself is this adequate of us? Although our business is not as good as in the past, we are satisfied if we can maintain our current status. I do not want more obligations."<br><br>General manager: "I do not think we would like to develop further than export. I think it is difficult for us. It must be used quite a lot of expense. Investment may not be worth." |

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| How did you select your international market? (if one country means one market) | Managing director: “We do not choose country where our product should be sold. We do not have any specific country for selling our products. We appreciate to sell our products to every customer who wants to purchase them. We wish only they can pay us.”<br><br>General manager: “We do not aim at selling our products to customers in any particular country. We do not select customer. Every customer is important for us.” |

## Company DD

DD was not set up for international business. Initially, it served only domestic market and sold mostly to foreign tourists. DD’s export activity was started as indirect export and then adapted direct export. Currently, DD handles both direct and indirect export. The majority of DD’s export activity is indirect export.

| Question | Answer |
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| Why didn’t you decide to engage in international market at the beginning of your business? | Managing director: “At that time, tourism was very boom. We had a lot of foreign tourists came and bought our products. We began with very small. Our production capacity was very limited. and we produced with full of our productivity.” |

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| | Managing director: "We had not thought about engaging in international market yet. We were very small. We only wanted sell to foreign tourists. We did not think about export."<br><br>General manager: "We did not aim at international market. We thought it was far from us. We knew nothing about how to do business with overseas market. We managed our business by our instinct. We did not use any mathematic or scientific principle to evaluate our business."<br><br>General manager: "We produced in small quantity. They were not enough for export. So, we could not conduct export." |
| Why didn't you expand your production capacity? | Managing director: "We prefer to do our business with step by step development. We do not want to accelerate our business. We do not want to make loan and put ourselves in risky situation."<br><br>General manager: "We produced in small quantity. They were not enough for export. So, we could not conduct export." "We did not need to expand rapidly. We do business without loan. We do not want to be in debt. We would like to use money from profit to expand our business. We slowly expanded our business." |
| How did you begin to involve in international | Managing director: "It might because of the market. We had customers came to us by themselves and they bought our products. We did not have active marketing activity. However, we did not handle export. Customers bought our |

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| market? | products and they managed export by themselves."<br><br>General manager: "Foreign tourists who came were included businessmen and buyers. They were interested in our products. They bought our products and brought back to their country. Later, they came back and bought for their export." |
| Why didn't you manage your own export activity for the beginning of your international involvement? | Managing director: "It might because we did not know about how to export. Customers bought our products and they wanted to export by themselves. However, they did not buy in huge quantity. Customers bought many kinds of product from different producers. We just did following customers' requirement. They had never asked us to handle export for them."<br><br>General manager: "We knew nothing about export. Our customers managed export for the products they bought. At that time, we did not think about manage our export. I thought this way was easy for us. We did not have to do anything more than we did before." |
| Why did you develop your export and begin to manage your own export? | Managing director: "We would like to increase our sales. So, we went to international trade fair. We had to adjust our export activity. Every seller who trade in international trade also manage their export by themselves."<br><br>General manager: "We expanded our factory and had more production capacity. We could produce more products. |

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| | So, we could accept larger orders. In the same time, we had to find more customers. We decided to join in international trade fair. This drove us to adjust and begin export by ourselves.” |
| Did you have any concern in order to manage your own export? | Managing director: “It was a little as normal. However, I saw that other sellers who trade in international trade fair also do it this way. It might be the common way of trade in international trade fair.”<br><br>General manager: “We had conducted our business for quite long time. It made us quite confident to move forward. I did not see that it will be difficult for us even though we had not handled export before.” |
| How will you expand your international business activity? | Managing director: “We would like to find more overseas customers but we lack of person who can take care of our marketing properly. We would like to have someone helping us on marketing activity. I am old now. I cannot travel a lot. I cannot let my staff go alone. I cannot fully trust them.”<br><br>General manager: “We will carry on our business like this. We do not wish to expand bigger. Our resources are limited. |
| Why didn’t you expand further than export? | Managing director: “I have not thought about it. Overseas investment may be very high risk for us. I think we are not large enough. We have limited resources and not ready to do that. We may maintain export as part of our business. We may not expand further than export.” |

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| | Managing director: “We do not hope for enlarge our business to that stage. If we would like to do, we have to ask for a loan which we do not want. We are fear of losing our capital. We just want to maintain our business and survive.”<br><br>General manager: “We do not want to invest more than our ability. We are not sure that we will succeed. If we are not success, we will be in huge trouble. Maintaining export, we can carry on our business. It may not make us rich but we can go on.” |
| How did you select your international market? (if one country means one market) | Managing director: “We did not select country where our products will be export. Actually, customers chose us. They came to us.”<br><br>General manager: “We have not chosen our international market. Customers bought products from us. They have their own overseas market. We do not have to worry about the country where our products will be exported.” |

## Company EE

EE did not engage in international market from the beginning. It involved in initial international market by employing indirect export. In order to find more customers and extend its business to international market, EE decided to engage in international trade fair and adapted its export activity to direct export. Currently, EE manages both direct and indirect export. Direct export is EE's main international entry mode strategy.

| Question | Answer |
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| Why didn't you decide to engage in international market at the beginning of your business? | Managing director: "At the beginning, I thought only I wanted to sell products to foreign tourists. I saw a lot of foreign tourists travelled around. I have this land and wanted to do some business, sell some products to foreign tourists. I had not thought about export or anything else."<br><br>Managing director: "I started this business by knowing nothing. At that time, I did not look at overseas market. It was too complicated for us. I just thought about how I could manage my business and sell my product."<br><br>Business development director: "International market was something we did not know, something we could not manage. We did not know how to do business in international market. We did not even think about international market." |
| How did you begin to | Managing director: "Because we were set up by the support from JODC. The relationship with JODC brought us |

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| involve in international market? | Japanese customers. They were wholesalers. They came to us and bought our products. We did not do any export for them. They handled export by themselves."<br><br>Business development director: "It was started from Japanese customers. They had connection with JODC. JODC might tell them about us. They came to us. They bought our product and they managed export by themselves." |
| Why didn't you manage your own export activity for the beginning of your international involvement? | Managing director: "As I told you, I started this business by knowing nothing. We were still doing trial and error with our business. It would be difficult to manage export by ourselves at the start."<br><br>Business development director: "It might be difficult. It was more than our knowledge. We were not ready at that time. We just started our business. We did not even involve with any export activity." |
| Why did you develop your export and begin to manage your own export? | Managing director: "We would like to participate in international trade fair. I could not tolerate of local retail system anymore. Although we had some orders from Japanese customers, they were not enough. I made a decision that we have to look at international market and try to find customers for export."<br><br>Business development director: "We could not wait for customers to come for us. That was not effective for our business anymore. If we would like to have more customers, we have to look for the way to find them. So, we decided to join in international trade fair." |

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| Did you have any concern in order to manage your own export? | Managing director: "At that time, I thought of nothing. We would do anything that could help us find more customers. We needed to improve in order to participate in international trade fair."<br><br>Managing director: "I did not think that it will cause us any problem. We had to learn and adjust to manage our export."<br><br>Business development director: "It is general condition of trade in international trade fair. Other sellers also do it. We did not worry about managing our export." |
| Why didn't you expand further than export? | Managing director: "I do not think we would like to expand further than export. It is not necessary. There are many markets overseas where we can export. It depends on how we persuade customers to buy from us."<br><br>Managing director: "We have to estimate our ability and know ourselves. Our capability and condition cannot go to that level. In order to do that it must be used a lot of money and it is high risk. We are not sure."<br><br>Business development director: "I think we may not reach that stage. At present, we may not dare to expand beyond export. We are not confident. I think we are not that big. We are lack of readiness in many aspects." |
| How did you select your | Managing director: "We do not specify country where we should sell our products. We do not have any principle. |

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| international market? (if one country means one market) | We participate in international trade fair both domestic and overseas. Customers will find us there. We also have website where customer can find us. Many of customers come to visit us here."<br><br>Business development director: "I do not think we can select country for our market. We have never selected country for our export. We have created our products and exhibited them in international trade fair as well as our shop here. Customers who are interested in our products will approach us." |

## Company FF

FF was set up as a small manufacturer and retailer which served mainly domestic market, especially foreign tourists. Initially, FF did not aim for international market. However, FF had received few sales from overseas markets since the first year of its inception. FF started to involve in international market by using indirect export. International customers bought FF's products and exported by themselves. After a while, FF began to join in international trade fair and adapted to manage its own export. Currently, FF's international activities are included direct and indirect export. The majority of FF's export activity is direct export.

| Question | Answer |
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| Why didn't you decide to engage in international market at the beginning of your business? | Managing director: "We did not have any idea about selling to international market. We did not think about exporting. At that time, there were many foreign tourists came to Thailand. We saw the opportunity to sell products to them. So, we produced and sold our products mostly to foreign tourists."<br><br>Managing director: "We started our business with lack of knowledge. At that time, we just wanted to try. I only thought that if we can have customers came and bought our product, why we have to do something which more difficult."<br><br>Marketing manager: "We aimed for selling products to foreign tourists. Overseas market might too far and too difficult for us. We did not know much about them." |
| How did you begin to involve in international market? | Managing director: "Initially, we had foreign customers came and bought our products. But, we did not export. They exported by themselves. We did not expect these foreign customers. We did not have any marketing activity."<br><br>Marketing manager: "At the start, we had few small orders from foreign buyers. They exported products by themselves. We sold our product to them at the ex-factory price, in baht. Later, we kept getting more orders from this kind of customers." |

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| Why didn't you manage your own export activity for the beginning of your international involvement? | Managing director: "We had not thought about managing our own export. We had no idea about how to manage export. We had not much understanding of export. We did not want to step over. We would like to do it step by step."<br><br>Marketing manager: "We did not have a long plan. We were only manufacturer and customers came to us. We just kept producing for their orders. We had not known how to manage export. Moreover, our customers did it by themselves. They had never asked us to handle export for them." |
| Why did you develop your export and begin to manage your own export? | Managing director: "Our international orders from the previous customers were decreased. We had to look for more customers. We decided to join in international trade fair. In international trade fair, sellers should handle export activity. We had to adjust in order to participate in international trade fair."<br><br>Marketing manager: "We joined in international trade fair. We had to adjust and manage our export following the condition of trade in international trade fair. Trading conditions in international trade fair are different from which we used to. It is common in the international trade fair that export activity is seller's responsibility." |
| Did you have any concern in order to manage your own export? | Managing director: "At the first time, we slightly worried about how to manage export because we had never done it before. However, it is a common way of dealing business with customers who trade in international trade fairs. We had to learn and adjust our export activity." |

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| | Marketing manager: “Not much. We had a little. We had produced for our customers’ export for quite long time. We also would like to develop ourselves and become exporter. So, we improved and started to manage our export.” |
| Why didn’t you expand further than export? | Managing director: “We may not want to expand further than export. At present, the global economy is not so good. Export has problems as well. We have to be very careful. We are trying to keep our remaining customers and in the same time we try to seek for new customers.”<br><br>Managing director: “It is difficult. It may be more than our capability. I have never thought about it. We are not ready to move forwards to that stage. I am not sure that we can go to that stage.”<br><br>Marketing manager: “We have not thought about further investment or move forwards more than export. It may not suitable for our products. Another thing, it must be used a lot of budget. I think it will not probably be worth for investment.”<br><br>Marketing manager: “We will walk slowly and cautiously. We have to think a lot about making more investment. I think it is hard for us. We are not courageous enough.” |
| How did you select your international market? (if one | Managing director: “There are not many groups of international customer who pay for the kind of our products. We cannot select them. We will take them all if anyone comes to us.” |

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| country means one market) | Marketing manager: "We do not choose where our customers come from or country where our customers sell our products. We realise that our firm is small. We do not specify any country for exporting our products. We wish only we have customers purchasing our products." |

## Company GG

GG was established as manufacturer and exporter from the inception. It has conducted direct export from the beginning of its business. DD has participated in international trade fair since its beginning. International trade fair is the main place to find its customers.

| Question | Answer |
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| Why did you decide to engage in international market from the inception? | Managing director: "We wanted to do export for our business since the beginning. At that time, it was opportunity because Thailand was probably at its peak in handicraft export. China, Vietnam, and India had not played in the market yet. Customers who search for handicraft products usually came to Thailand."<br><br>Deputy managing director: "I do not like the domestic commercial system. I think export has the highest opportunity. There are many customers in overseas markets." |

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| Did you have any concern in order to start export? | Managing director: "A little. But, as I told you we would like to conduct export from the inception. We would like to try."<br><br>Deputy managing director: "Just a little bit. O.K., there were risk but we would like to try. We thought we could handle it. It should not be over our ability." |
| Why did you manage your own export from the beginning? | Managing director: "We did not really want to select a specific mode of export. It might because of we joined international trade fair from the start. It is normal in international trade fair that sellers should manage export for their customers. This made us manage our export since the beginning."<br><br>Deputy managing director: "We have not waited for customers to come. We have exhibited in international trade fair since the beginning of business. Some sellers might have customers who come and buy their products and customers manage export by themselves, but we do not have this kind of customer." |
| Did you have any concern in order to manage your own export? | Managing director: "I thought it is common for exporting. We are exporter. So, we should manage our export by ourselves. They were some problems at the beginning but we could learn and improve."<br><br>Deputy managing director: "Concern? May be a little bit. But we already decided to do. Then, we went for it." |

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| How will you expand your international business activity? | Managing director: "We still have some problems on our operation. Firstly, we have to improve our operation and then do more export marketing activity. We would like to find more customers and make them recognise us."<br><br>Deputy managing director: "We would like to find overseas distributors. If we can have agreement with them, we can secure our export and plan our production."<br><br>Deputy managing director: "Another thing we would like to do is creating our own brand. If we can do this, customers will buy our products as exactly they are. However, this is quite far. It is just plan we would like to do." |
| Why don't you expand further than export? | Managing director: "It may be too difficult for us. We have to be very careful when we want to do anything. We have to look at many dimensions. We should slowly develop our business in step by step basis. Expansion further than export may be more than our aim so far."<br><br>Deputy managing director: "We used to think that one day we will have our overseas shop, but it is just a dream. We have restriction on our fund. We do not have much money. We are restricted by our resources in order to expand. We will maintain and carry on our export."<br><br>Managing director: "We may not have courage enough to expand further than export. There are many problems which we cannot handle. Moreover, we still concern about our export. We think we are not professional. We have |

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| | to improve ourselves first.” |
| How did you select your international market? (if one country means one market) | Managing director: “We do not really select our international market. We initially created products from our ideas. Our products might match the need of customers in European market. This may be the reason why we have the European market as our main market.”<br><br>Deputy managing director: “We do not expect for any specific country. Initially, we produced our products following our ideas and creativity. We exhibited them in international trade fairs. Customers who were interested in our products would come to us.” |

## Company HH

HH was set up as manufacturer and retailer of candle products. Initially, HH served only domestic market. International market was not HH’s attention. HH began to engage in international market by receiving orders from foreign customers who came and bought HH’s products for their own export. HH did not handle its export. Later, HH decided to join in international trade fair and adjusted to manage export by itself. Currently, HH handles both direct and indirect export. Most of HH’s customers still want to handle export by themselves. So, indirect export is HH’s main export activity.

| Question | Answer |
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| Why didn't you decide to engage in international market at the beginning of your business? | Managing director: "International market was not our attention. It was beyond our understanding at that time. It might be difficult to go to international market. We just started business. We did not want to involve in something that we were not familiar."<br><br>Marketing manager: "At the beginning, we did not wish to involve in international market. Overseas market was far from us. We did not have knowledge about it." |
| How did you begin to involve in international market? | Managing director: "In the second year of inception, we had foreign customers came to us. They were wholesalers. They bought many kinds of product for their overseas market. They ordered our products to fulfill their capacity and trial their markets."<br><br>Marketing manager: "It was started from we had some foreign buyers came to us. They started to buy our products for their own export. We did not have to handle export for them. We sold to them at Ex-factory price. |
| Why didn't you manage your own export activity for the beginning of your international involvement? | Managing director: "We did not expect that we will conduct export. Managing our own export was even further than our idea. We did not think that we could do it at that time. We had not prepared. We did not know how to do it." |

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| | Marketing manager: “We had not known anything. We did not intend to export. We were lucky that we could have foreign customers came to buy our products by themselves and they exported our product abroad.” |
| Why did you develop your export and begin to manage your own export? | Managing director: “We were advised to participate in international trade fair in order to find more customers. We studied that in international trade fair seller have to manage export for customer. So, we had to adapt and prepare ourselves.”<br><br>Marketing manager: “We would like to join in international trade fair. We started to learn how to manage export. Then, we participated in international trade fair.” |
| Did you have any concern in order to manage your own export? | Managing director: “At the first time, we slightly worried about managing our own export. But, we had to do. If we cannot do this, we cannot join in international trade fair. So, we decided to do it.”<br><br>Marketing manager: “A little. We had not known how to manage export, but after we studied we knew that it was not too difficult. We could do it.” |
| Why didn’t you expand further than export? | Managing director: “Our business policy is slow and steady growth with step by step move. We choose the lowest risk strategy. Go beyond exporting is not our plan. It is difficult for us. If we do it, it will bring us high expense and we have to borrow money which we don’t want. We do not want to be in debt. It is better not to risk doing it.” |

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| | Marketing manager: "I do not think we will do further than export. It will be too difficult for us. It is far and must be difficult to manage. If we have overseas sale subsidiary, it must be used a lot of money. It will not be worthwhile." |
| How did you select your international market? (if one country means one market) | Managing director: "We do not select any country. We do not mind where our customers come from. Customers come to us and buy products which they want. Our products are sold to everyone who would like to purchase them."<br><br>Marketing manager: "We have never selected country for sale our products. Our customers have their market. They bought products from us and sell in their market. We do not select who or where we should sell." |

## Appendix 25 Supporting Quotes: Company BB – HH

| Case SME | Initial Reasons (Round 1) | Underlying Variables (Round 2) |
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| BB | Not necessary (small but already satisfied) | Lack of knowledge/experience<br>Risk perception<br><br>- Marketing manager: *"I think export is enough, for other ways we have no knowledge or understanding and we don't think about it for that reason…sure we always happy to make more money but we won't risk what we have already…the unknown involved not something I want or I plan to be involved in…like I said things are ok, we don't need to be greedy, if we go further maybe then we lose much more than we gain…anyway more than exporting too risky for us…"* |
| | Don't want to borrow money | Risk perception<br><br>- Managing director: *"when we borrow money we put ourselves in weak position…we don't want to use money we don't already have, too much uncertainty and especially with dealing in environment we don't know"* |

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| | Don't want to build new team overseas | Lack of resources<br>Risk perception<br><br>- Managing director: *"I think it's resources, time and money…yes we worry about control, we have to leave recruitment to someone else, we not sure what the problems will be…there's not the trust we can build at home, it's just so unsure…for me I think it's too risky - so much is unknown…"* |
| CC | Investment may not be worth expense | Risk perception<br><br>- General manager: *"this is about risk, too much risk for us. It's much more risk than when we do business here because we don't really know anyone in international market to help us like we get help here with exports….the feeling we don't know situation, what will happen, is much more. It makes me worry, it not safe and I don't want we push too far and damage the trust people here put in us…"* |
| | Do not want any more obligations | Lack of resources<br>Lack of knowledge/experience<br>Risk perception<br><br>- Managing director: *"we mean about debt mostly…ok we need more people and to deal with more* |

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| | | *regulation but main thing for me is investment and commitment. Because we will have to deal with something big for us and something we have no experience or knowledge then…the insecurity means lack of feeling safe and I don't want that…risk is high and not acceptable for me."* |
| DD | Too old<br><br><br><br><br><br>Lack of trust in staff to manage alone | Risk perception<br><br>- Managing director: *"exporting is already something quite big for us, quite new, but we have some help and have experience and information share with other companies. But after export the other way it too far for me, maybe when I was young I dreamed more but not now…risk too much…"*<br><br>Lack of knowledge/experience<br>Risk perception<br><br>- Managing director: *"there is so much they don't know about it (expansion beyond exporting) how they can expect to make good decisions in the darkness? Even me it's just so much unknown so complicated, so many things we would need beyond our learning. For myself it's very high risk, and for them without me even more risk I think (laughs)…"* |

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| | Limited resources | Lack of resources<br>Risk perception<br><br>- Managing director: *"ok, I agree with this, even if we have double the income, we are double the size. I still think, my feeling about risk for this thing is the same. It's still too much insecurity for me to do it. If resources no limit – maybe! (laughs)"* |
| | Very high risk, Fear of losing capital | Lack of knowledge/experience<br>Risk perception<br><br>- General manager: *"it's true. Inside Thailand we know our business what we do, who we can depend on. With export, ok customers come and we service them. And in Thailand as export company the government give us some information, some help…but something like this, like make the company together with overseas company or go in by ourselves…no, it's too dangerous, we don't know anything…my job is to do good business and not lose what we have built until now…"* |
| EE | Lack of capability | Lack of knowledge/experience<br>Risk perception |

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| | | - Managing director: *"our lack of ability come from lack of knowledge and experience. But still if we think about this, it's true. Sure we can learn but I think maybe asking time and risk of time (passing, delay)"* |
| | High expense, High risk | Lack of resources<br>Lack of knowledge/experience<br>Risk perception<br><br>- Managing director: *"I don't know really how much it would cost to develop our business or how we do business in foreign country. But I think it's a lot and for small business like this one it surely too much…it's risk because not something we know about or do before…it's too much gamble for us…"* |
| | Lack of confidence | Lack of knowledge/experience<br>Risk perception<br><br>- Business development director: *"this because we don't know what waiting for us if we do this (go beyond exporting)…we have no confidence if we don't know…I don't think it worth learning, or having the knowledge, because it's just not worth taking the risk for us…I'm not comfortable with this development…again because risk, what might happen and hurt the business…."* |

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| | Too small | Risk perception<br><br>- Business development director: *"if we are bigger then risk would be maybe smaller, not about how much we lose but just about we can survive…but for us, our size, risk to go beyond exporting it's too much for us to accept…"* |
| | Lack of readiness | Lack of knowledge/experience<br><br>- Business development director: *"again I talking here about the lack of knowledge we have, and not any experience. With export we not alone, we have government to give us knowledge we need and support and share information so we ready or at least some part ready. But with other more committed involvement in foreign markets, it's all the unknown…we not ready now, without support like for export I don't think we ready ever…"* |
| FF | Beyond capability | Risk perception<br>Lack of knowledge/experience<br>Lack of resources<br><br>- Managing director: *"if economy ok? Yes, I still worry but maybe not so much…to be honest I think* |

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| | | *even if economy very good we still not sure about expansion beyond what we do now. I think the risk is very high because we have no knowledge…"*<br><br>- Managing director: *"this is about not only knowledge but also people we have here because they can do very well here in Thailand but we have no experience for all the complexity and difficulties about foreign market expansion. Also for me. Yes, I'm sure we can train but maybe not worth it because of the risk involved…."* |
| | Not suitable for products | Lack of knowledge/experience<br>Risk perception<br><br>- Marketing manager: *"right now we get orders from customers so about them we are quite sure. But for other markets we don't know if what we produce of so much interest. Even in market (where) we serve the customers, the customers they will know about demand much more than we do so they will take enough for them, (so) no point to push more. About other markets you are right we don't know. And I feel that if we're not completely sure about the interest in a market then I think it's better we leave it. Otherwise (we) may lose what we make already…"* |

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| | High expense | Risk perception<br><br>- Marketing manager: *"if we gamble on this process and investment in other countries we risk to lose everything we plan and save at home. It just seem…it's something too far for us. We not confident enough with this idea, it too big, too unsure I think….for me. If something goes wrong we have no control with it. Here we always have contacts who we can trust to help us…"* |
| | Not enough courage | Lack of knowledge/experience/understanding<br>Risk perception<br><br>- Marketing manager: *"I mean about the risk again, we don't know enough for us to be confident about the outcome so we not feel brave enough – or maybe crazy enough! – to follow this idea. It's back like I said before….we have no knowledge, no experience, it's big thing I think for Thai SME, so for us, it's too much risk for our company…"* |

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| GG | Too difficult | Lack of knowledge/experience<br>Risk perception<br><br>- Managing director: *"we don't know how difficult but we have no experience so it means we need to learn a lot. Our inexperience means maybe we disadvantage with competitor which make more risk in short term. Maybe in that time we lose more than we can afford. For my mind it too difficult, too much…"* |
| | Wish to proceed 'step by step' | Risk perception<br><br>- Managing director: *"this is our policy. We don't like to take risk…until now we don't do anything too dangerous. The export (process) it have support and information for us from government. But if go beyond exporting, it's big unknown situation, it's not a 'step-by-step' (process) for my thinking it's like a big jump and too unsure for us in order to make this jump. Too much risk involved…"* |
| | Feels like dream | Risk perception<br><br>- Deputy managing director: *"because it so big thing. It not feels like realistic, seem like dream. It not* |

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| | | *something I think realistic for Thai small company who do the same like our business. Maybe if we learn, we can do the same as other companies from other places but it seem like too much and too difficult….”* |
| | Lack of resources | Lack of resources<br>Risk perception<br><br>- Deputy managing director: *“we have limited resource. We feel expansion something like joint venture or some other way not something we big enough to feel comfortable with. We don’t want to borrow money, we don’t want to be in situation where no one can help. It’s too dangerous for us, if some big unexpected problems happen, maybe it will mean we have to close our business…”* |
| | Not enough courage | Risk perception<br><br>- Managing director: *“To make this big jump for me means we need to be confident that we know enough to feel comfortable we know we can do it. Expand more than export the risk is too high for us…”* |

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| | Possibility of problems which cannot be handled | Lack of knowledge/experience<br>Risk perception<br><br>- Managing director: *"this about not knowing, about not experience to deal with things that might happen. I worry about cannot manage it, something beyond our experience and no one can help just maybe ourselves… it's big worry"* |
| HH | Wish to proceed step by step | Lack of knowledge/experience/understanding<br>Risk perception<br><br>- Managing director: *"this is the way we work and until now we have no problems to work like this, always bring us good business. If we progress to another kind of business overseas it's a big step, very big, and we prefer small steps. If we proceed and take big risk about somewhere we have no contacts there and lacking knowledge compared with local supplier we may suffer our business very much"* |

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| | Desire for lowest risk strategy | Risk perception<br><br>- Managing director: *"it's like the step by step, I don't like to take the risk, to gamble with our money…I think for me it is too high risk and it against company policy and my own feeling how to protect and grow the business…"* |
| | High expense, Don't want to borrow money | Risk perception<br><br>- Managing director: *"more money we borrow it means less control and bigger worry about business if things go wrong…go beyond exporting it means more investment and that also means more risk and if things go wrong, it will be very serious…"* |
| | High risk | Risk perception<br><br>- Managing director: *"like I said, we like to keep to our plan and our strategy (is) step by step. Beyond exporting something we think too ambitious for us…risk is too high to take…"* |

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| | Too difficult | Risk perception<br><br>- Marketing manager: *"the international market (which is) further away is for my mind more difficult to control and so risk is much higher…but even with our neighbours anything more than exporting is high risk…"* |