

# Marketing Strategy Model for International Expansion: A Case of Thai SMEs

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## Abstract

The objectives of this research were 1). to study marketing strategy model for SMEs business expansion to foreign countries 2). to study factors influencing marketing strategy model for SMEs business expansion to foreign countries and 3). to create marketing strategy model for SMEs business expansion to foreign countries. Survey questionnaire was used to collect data from 400 Thai SME entrepreneurs who employed not more than 200 employees. The research employed descriptive statistics, One-way ANOVA, and multiple regression to analyze data and to test hypothesis.

The results from this research found that management process including length of time in production process had highest impact on business expansion to foreign countries, for marketing strategy aspect, the results found that by making products or services different from competitors in the world market had highest impact on business expansion to foreign countries, for external environment factors, the results found that official language of business partner country had highest impact on business expansion to foreign countries. For entrepreneur characteristics, the results found that entrepreneur's knowledge and skills of financial management had highest impact on business expansion to foreign countries. Finally, the hypothesis test results found that the SME's characteristics, marketing strategy, business management process, external environment factors, and entrepreneur's characteristics had influences on the success of Thai SMEs in order to expand business to the foreign countries at statically significant level 0.05

**Keywords:** Business management process, Marketing strategic model, Small and medium enterprises, Business Expansion

## Introduction

In the past decades, small and medium-sized enterprises (SMEs) played crucial roles in Thailand's economy. In the country, there are approximately 2.7 million SMEs. In addition, SMEs are sources of job and income for Thailand's economy with 42.4 percent shares in the country's GDP (SMEs Center, UTCC, 2018). The data from the Office of Small and Medium Enterprises Promotion indicated that 80.3 percent of domestic employment, or about 10 million people were working in SMEs (Office of SMEs Promotion, 2017). Data from SMEs promotion plans also indicated that 96 percent of all businesses in Thailand are under the control of SMEs. This make SMEs development policy become the main topic for every government. Thai governments have long time been trying to develop the SMEs Promotion Plan since 2002. Recently, the government is developing the performance of SMEs under the 4<sup>th</sup> SMEs promotion plans, which is aiming to increase SMEs GDP to be more than 50 percent of Thai GDP by 2021. But the country still fails to bring SMEs to the world market for the following reasons. (Office of SMEs Promotion, 2017)

First, the export GDP of SMEs is 36.8 percent of Thai GDP (approximately 2.1 trillion THB), which represents only 29.01 percent of Thailand total export. In 2014, there are only 24,543 SMEs registered for the export activities represents less than 1 percent of SMEs is capable to do international business (SMEs Center, UTCC, 2018). According to the 4<sup>th</sup> SMEs promotion plans, there is an evidence stating that Thailand only focus on doing international business with some specific country such as United States, Japan and China. The country is not looking for new markets in order to reduce the risk if those countries economic growth is no longer increase. Second, the imbalanced of business units between SMEs or so-called "missing middle". In spite of millions of SMEs, Thailand only have 12,812 medium enterprises which represented only 0.5 percent of total SMEs whereas in developed countries, the size of medium enterprises is between 5-10 percent of total SMEs. This reflect the limitations of Thai SMEs such as cost of capital, productivity and management. Organization for Economic Co-operation and Development (OECD) indicates that the "missing middle" would highly obstruct the economic growth since medium size companies are considered to be capable to gain most advantages from international trading agreement and investment, together with the chance to create innovation (Office of SMEs Promotion, 2017).

Third, the productivity of Thai SMEs is still very low (496,236 baht/person/year) compare to the large enterprises (2,228,019 baht/person/year) or 4 times smaller than the labor productivity of the large enterprises. This is because in the labor-intensive industry, the SME entrepreneurs would rather hire unskilled worker rather than invest in hi-tech machine to gain value added product. Labor productivity problems affect the ability to increase business competitiveness of SMEs, as a result, most Thai SMEs engage in price competition (Office of SMEs Promotion, 2017). Finally, most SMEs entrepreneurs are still lack of entrepreneurial spirit; they do not know much about the world business issues and lack of

international communication skills which is very important for entering to the world markets (Thai-Japanese Technology Promotion Association, 2013). Therefore, maintaining a business status and finding new marketing opportunities for SMEs is very difficult. SMEs should not only just find an opportunity to expand domestically, but also gain the national advantages on international trade. The problem is that if Thai SMEs want to enter the international market, there must be some factors that SMEs must consider or implement in the context of globalization which almost every business can freely compete. If the Thai SMEs could not expand their business to the international markets, it is difficult for them to maintain the competitive ability. Thus, the purposes of this paper were to study marketing strategy model for SMEs business expansion to foreign countries, to study factors influencing marketing strategy model for SMEs business expansion to foreign countries, and to create marketing strategy model for SMEs business expansion to foreign countries.

## Hypothesis

Hypothesis 1: Business Management Process have significant effect on Firm Performance on international sales volume

Hypothesis 2: Marketing Strategy have significant effect on Firm Performance on international sales volume

Hypothesis 3: External Factors have significant effect on Firm Performance on international sales volume

Hypothesis 4: Entrepreneurship have significant effect on Firm Performance on international sales volume

## Literature Review

Since small and medium enterprise (SME) sector is one of the most important economic contributors for Thailand, SMEs' international performance has been widely studied by the researchers. The definition of small and medium-sized enterprises (SMEs) vary according to the rules, context, and size of the economy of each country. For the Organization for Economic Co-operation and Development (OECD), European Union (EU) SMEs are referred to as a business that employs less than 250 people while in the United States, SMEs are defined as a business that employs less than 500 employees or may be specified by the size of the business using the amount of company's fixed assets. Thailand uses the criteria to classify SMEs with the amount of fixed assets not exceeding 50 million baht (THB) and the employment of not more than 200 people. (The Organization for Economic Co-operation and Development, 2017) (Revenue Department, 2018) There have been numerous researches trying to find factors to improve SMEs international performance.

O'Cass & Weerawardena (2009) examined the roles of international entrepreneurship and innovation in SMEs' propensity to engage in exporting, together with classifying the firm

size. They also compare the different between the international SMEs and non-international SMEs in the context of manufacturing firm in order to achieved higher marketplace performance. The authors found that the more innovation the company apply, the more success for international market expansion. Falk et al. (2014) presented the drivers of internal and external factors that drives SMEs' internationalization including internal factors which are human resources, knowledge of management, innovation and technology, and firm characteristics (size and capabilities). The external factors are divided into 2 main criteria namely, home country factors (trade barriers, regulations, export promotion programs, export credits, and level of competitions) and host country factors (distance, size of the market, import barriers, cultural differences, and political differences). Kunkongkaphan (2014) found that company's internal factors included production, marketing, human resources, financial resources, size and scopes have significant effect on the performance of SMEs. Also, the author found that the internal and external factors affected the SMEs in different ways than they affect large firms and corporations. Kunday & Sengüler, (2015) explored the internationalization of SMEs in Turkey reflexed from the innovativeness of SMEs firms, entrepreneurial skill of founder of business, and motive of starting business together with figure the relationship between these factors and export orientation of SMEs.

Tooksoon, Mongkhonkili, & Imaob, (2016) studied the marketing capabilities of Thai entrepreneur effecting on exporting performance in ASEAN Economics Community (AEC) member countries and found that firm's marketing strategies (4Ps) have significant positive effects on the success of their international exporting; by conducting pricing strategy, foreign marketing promotion capacities, and sell promotion would increase the success of international exporting. Rahman, M., Uddin, M., & Lodorfos, G. (2017) identified the key socio-economic barriers faced by the SMEs in an emerging economy to enter into the foreign markets. It has successfully framed the socio-economic barriers to enter in foreign markets for Bangladeshi SMEs as a second order hierarchical model. The author found that selected institutional factors like political instability, corruption, government support, R & D investments, legal procedures, language difference and social approach have significant impact on firm's entry mode decision. Rakariyatham and Ploysri (2016) study the readiness of SMEs towards international business engagement and factors influencing a success of international SMEs in Northern Thailand and found that SMEs entrepreneurs are ready for international practice at neutral level and found that most important factors influenced on the success in doing international business were management duty strategy, international marketing strategy, and external environment factors.

## Research Methodology

The objectives of the research were to study factors influencing marketing strategy model for SMEs business expansion to foreign countries, the research was a mixed-methodology design consisted of qualitative and quantitative research. Data were collected using in-depth interview with 30 key informants who are business owner or professional management of people who works are related to SMEs and international business and survey questionnaire was used to collect the quantitative data from 400 SMEs entrepreneurs who employed less than 200 employees. The population in this research was 24,543 executives from small and medium enterprises which have registered with the Customs Department to do international business. The sample size was calculated using Taro Yamane's Equation model as recommended by Comrey and Lee (1992). Descriptive analysis, One-way ANOVA and multiple regressions were used to analyze data and to test hypothesis.

## Research Findings

The results of demographic found that Most of the respondents were males (88%), ages were over 50 years old (50.25%), held bachelor degrees (51%), service year in the current position were between 1 year to 5 years (29.25%).

### *Business Management Process*

The results from this research regarding the business management process found that the most important aspect is the duration of production of goods and / or services ( $\bar{X}=3.76$ ), followed by 5s Management Theory (Hirano, 1996) has an effect on expanding business to foreign country ( $\bar{X}=3.14$ ), customer requires for safety officer or workplace security system under the rule of law (For example, OHS Professional Practice) ( $\bar{X}=3.13$ ), having certification for quality standards (such as ISO) ( $\bar{X}=3.07$ ), finally, having contacts with Thai government agencies in partner countries ( $\bar{X}=2.77$ ), respectively.

### *Marketing Strategy*

The results of the importance of variables of the **Product Strategy** found that the most important aspect is Products or services are different from other foreign competitors ( $\bar{X}=3.92$ ), followed by The type of packaging affects the expansion of the business internationally ( $\bar{X}=3.57$ ), Quality of the products affects business expansion into foreign countries ( $\bar{X}=3.38$ ), Finally, A variety of product lines ( $\bar{X}=3.35$ ).

The results of the importance of variables of **Price Strategy** found that the most important aspect is Price need to be lower than foreign competitors ( $\bar{X}=3.90$ ), followed by The pricing system should be diverse and suitable for each market ( $\bar{X}=3.81$ ), The price of goods and services affect international expansion ( $\bar{X}=3.79$ ), Incoterms affect the pricing for your business expansion abroad (for example, FOB, CIF, FCA etc.) ( $\bar{X}=3.37$ ), Finally, Customers have a dramatic effect on the pricing of products and services ( $\bar{X}=4.09$ ).

The analysis results of **Place Strategy**/distribution channels found that the most important aspect is continuous monitoring and checking of the performance of all channels of the distribution of products and services, in order to ensure that the products satisfy end-users' needs ( $\bar{X} = 3.47$ ), followed by Setting up branches or sales offices abroad has an impact on consumer to access products in overseas market ( $\bar{X}=3.34$ ), The company need to sell products through websites or online platforms such as B2B or B2C (such as Alibaba, Lazada or Amazon) ( $\bar{X}=2.82$ ), Having distributors or any other reliable organizations to expand business overseas ( $\bar{X}=2.80$ ), Finally, the company need to sell or make any contract to transfer certain licenses or copyrights which are assets of an organization, in order to expand business internationally ( $\bar{X}=2.71$ ).

The analysis results of **Promotion Strategy** found that the most important aspect is publishing the documents in other languages apart from Thai in order to promote basic information of the organization ( $\bar{X}=4.09$ ), followed by Organizations need to have quality certifications from reputable institution ( $\bar{X}=3.36$ ), organization must have a website ( $\bar{X}=3.14$ ), Organizations need advertisements through various social media or websites ( $\bar{X}=2.96$ ), Finally, Conducting international trade shows affect international expansion ( $\bar{X}=2.92$ ).

The analysis results of **Process Strategy** found that the most important aspect is the image of Thailand affects the purchase of products and services from customers ( $\bar{X}=3.83$ ), followed by There is an online channel for customers to come in, give feedback, give suggestions or publicize the organization's information ( $\bar{X}=3.30$ ), Contacting customers mainly depend on Digital or Online channels ( $\bar{X}=3.21$ ), Employees at all levels have an understanding of the organization's vision regarding international business expansion ( $\bar{X}=2.85$ ), Finally, firms have clear and standardized international business management procedures ( $\bar{X}=2.82$ ).

The analysis results of **People Strategy** found that the most important aspect is "Human resource" is the most important factor in enabling business expansion into foreign countries ( $\bar{X}=3.03$ ), followed by Organization needs to have personnel who are able to communicate in foreign languages at a proficiency level ( $\bar{X}=3.01$ ), Having business partners for overseas operations is necessary for the business ( $\bar{X}=2.80$ ), Having personal training to have an understanding of the local culture of the trading partner countries for expanding business internationally ( $\bar{X}=2.72$ ), Finally, Using presenter to expand overseas ( $\bar{X}=2.36$ ).

The results of the importance of variables of **Physical Evidence Strategy** found that the most important aspect is Criticism or compliments in products and services from customers, affecting business expansion into different countries ( $\bar{X}=3.85$ ), followed by The impression from customers' visit of the factory or stores has affected the business expansion into foreign countries ( $\bar{X}=3.78$ ), Staff dress politely and appropriately for work in the assigned duties ( $\bar{X}=3.76$ ), Tools and equipment for production and/or service affect customers' purchasing decision ( $\bar{X}=3.19$ ), Finally, Brands affect overseas expansion ( $\bar{X}=3.17$ ).

### *External Factors*

The results of the importance of variables of the External Factors (Social and Cultural) found that the most important aspect is the official language of the partner country is affecting business expansion ( $\bar{X}$ =3.68), followed by the number of populations in the partner country affects international expansion ( $\bar{X}$ =3.66), The demographic structure of the trading partner countries affects international expansion ( $\bar{X}$ =3.51), The values and attitudes of trading partners toward Thai products and services have an impact on expanding business internationally ( $\bar{X}$ =3.13), Finally, the social structure of the trading partner countries affects international expansion ( $\bar{X}$ =3.10).

The results of the importance of variables of the External Factors (Economics) found that the most important aspect is the purchasing power of the trading partner countries affects the business expansion ( $\bar{X}$ =3.93), followed by Financial transferring system affects business international expansion ( $\bar{X}$ =3.62), financial costs hinder business growth (such as interest rates for loans) ( $\bar{X}$ =3.43), Exchange rates affect business expansion into foreign countries ( $\bar{X}$ =3.27), Finally, Economic growth of trading partners countries affects the business expansion ( $\bar{X}$ =3.20).

The results of the importance of variables of the External Factors (Legal) found that the most important aspect is The Revenue Department's procedures impede the expansion of businesses overseas (such as Long period of value-added tax reimbursement) ( $\bar{X}$ =3.85), followed by Having mutual agreement in international treaties affects the expansion of business to foreign countries in particular business ( $\bar{X}$ =3.81), Having the difficulty of applying specific standard for product or service (For example, TIS) ( $\bar{X}$ =3.76), Having strict laws regarding intellectual property have an impact on expanding overseas ( $\bar{X}$ =3.70), Finally, Thai customs procedures can be an obstacle to expanding business internationally ( $\bar{X}$ =3.14).

The results of the importance of variables of the External Factors (Technology) found that the most important aspect is Improving of National Information Technology (IT) affects business international expansion ( $\bar{X}$  =4.10), followed by Digital Platform has helped international business process. (such as using Social Media to advertise products or register paperless documents) ( $\bar{X}$ =3.60), The organization relies on production/service technology from foreigner ( $\bar{X}$ =3.21), The production technology of the organization affects the quality and the standardization of products for expanding business overseas ( $\bar{X}$  =3.19), finally, the organization uses logistics technology or uses a carrier that uses logistics technology to transport goods and services to customers (such as GPS, Barcode, RFID or EDI) ( $\bar{X}$ =3.05).

The results of the importance of variables of the External Factors (Politics) found that the most important aspect is government sectors are helping to expand the business to international markets ( $\bar{X}$ =3.32), followed by Having government from the election affects international business expansion ( $\bar{X}$ =3.20), The political stability of the trading partner countries affects the expansion of business to other countries ( $\bar{X}$ =3.03), Government policies

affect business expansion into foreign countries ( $\bar{X}$ =2.96), Finally, having specific government agency to service organization for expanding overseas ( $\bar{X}$ =2.70).

### *Entrepreneurship*

The analysis results of Entrepreneurship found that the most important aspect is Leader's Financial Management skill affects business growth ( $\bar{X}$ =4.25), followed by leader accepts consultants from outside to do unfamiliar tasks ( $\bar{X}$ =3.60), The organization is decentralized decision-making ( $\bar{X}$ =3.32), Entrepreneurs Mindset affects the business expansion in foreign countries ( $\bar{X}$ =3.30), finally, the leader's experience of working or studying in overseas affects the business expansion in foreign countries ( $\bar{X}$ =3.05), respectively.

### Hypothesis Test Results

This research employed One-way ANOVA and multiple regressions in variable testing and hypothesis testing. The results show in the table below:

Hypothesis	Test results
<b>Hypothesis1:</b> The result of the variable hypothesis testing found that <b>the business management process</b> of small and medium-sized enterprises has significant on firm performance on higher international sales volume (F = 4.552***) at the statistical significance level of 0.05.	Accepted hypothesis
<b>Hypothesis2:</b> The result of the variable hypothesis testing found that the Marketing Strategy on Product (F= 4.804***), Price (F = 2.656**), Place (F = 253.974**), Promotion (F = 10.232***), Process (F = 3.294**), People (F = 3.935**) and Physical Evidences (F = 56.478***) of small and medium-sized enterprises has significant on firm performance on higher international sales volume at the statistical significance level of 0.05.	Accepted hypothesis
<b>Hypothesis3:</b> The result of the variable hypothesis testing found that the External Factors on Social/Culture (F = 7.343***), Economic (F=7.343***), Legal (F = 5.387 ***), Technology (F = 3.290**), and Politics (F = 231.997***) of small and medium-sized enterprises has significant on firm performance on higher international sales volume at the statistical significance level of 0.05.	Accepted hypothesis
<b>Hypothesis4:</b> The result of the variable hypothesis testing found that the Entrepreneurship (F = 26.970***) of small and medium-sized enterprises has significant on firm performance on higher international sales volume at the statistical significance level of 0.05.	Accepted hypothesis



## Discussion

SMEs is the backbone of economy; the review shows that SMEs' marketing has received great attention in both management and marketing literature in recent years. The SMEs entrepreneur's perspective in this research have identified many interesting factors that encourage international expansion for Thai SMEs. These include management, marketing, entrepreneurship as well as the external factors. All the factors are influenced on SMEs' international sales performance.

The findings from this current research found that the business management process has a great impact on firm performance on higher sales volume. The finding can be inferred that Thai SMEs need to prepare the organization to engage in international activities in three main criteria; First, they need to coordinate with the Thai government agencies on their host countries. The study showed that, even there is a significant impact on contacting with government over the performance of SMEs, there are limited SMEs would like to contact with government agencies. Second, SMEs need to process the company under the visual control (For example, 5s Management). All of the company that the researchers have visited during the research process, have ISO standard. Finally, requesting on International Standard (for example ISO, IEC) as these standards are accepted worldwide by many countries. These aforementioned could help Thai SMEs become more international.

The findings from this current research found that the SMEs' marketing strategy significantly has positive impacts on their performance on higher sales volume. The findings agreed with Vrontis, Thrassou, & Lamprianou, (2009), Tooksoon, Mongkhonkili, & Imaob, (2016), Rakariyatham & Ploysri, (2016), who revealed that 7 elements in marketing mix including product, price, place, promotion, process, people, and physical evidence affected individually on international sales performance of Thai SMEs. The results also indicated that most of the Thai SMEs used defensive marketing strategy more than offensive marketing strategy. This mean that they would rather focus on satisfying their current customers than finding a new market. Additionally, they have differentiated their products and service and offer them at competitive prices. However, despite, the study showed that high production technology had positive impact on increasing international sales. When need to purchase a higher technology or machine for their production line, the Thai SMEs mostly refuse (Yam et al., 2011). Successful SMEs have the information of their companies in foreign languages (English, Chinese and Japanese) both offline and online formats depending on the potential customers. The main international distribution for Thai SMEs was normally did it via third party such as exporting management companies and trading partners. SMEs who are doing OEM practice (original equipment manufacturer), their potential customers are the international brand owners or large manufacturing firms in other countries.

The findings from this current research found that external factors had impacts on firm's performance on higher sales volume. The results showed that SMEs need supports from

their government (OECD, 2006). Regarding the law and regulations, the study showed that the laws and regulations from many government agencies in Thailand were very complicated and unobliging for small and medium business operations. The findings also pointed out that the political system inside the country was not as important as political stability in the trading partner and government policy toward international trade of the host countries. Like many studies (Rashid & Waqar, 2017); (Xie, 2019), the findings found most significant influencing economics factor for international SMEs was the exchange rates of Thailand against the currency and the birthrate of people in the trading partner countries. Regarding the social factor, the number of population and social structure of trading partner countries had impacts on the sales volume. For technology factor, the findings showed that by applying logistics technology (GPS, RFID and EDI) and improving production standard would increase the international performance of the SMEs.

The findings from this current research found that SMEs' entrepreneurship has an impact on firm performance on higher international sales volume the findings from this current research was similar to Ibrahim, M. I., & Mustapha, B. (2019). The findings also revealed that entrepreneurs' decentralized-decision making practice was the most influencing factor for Thai Entrepreneurs' international business. As Thai SMEs has to compete under the rush production time and fast delivery, hence, using a single operator to make decisions will result in fast work and the company would be able to quickly respond to customer. Another factor was overseas experience of the entrepreneur, whether studying or working, the findings show that entrepreneurs' oversea experience had significantly positive impact on international sales of the Thai SMEs; this is because the entrepreneurs who experienced living in a foreign country would be able to identified the needs and wants of people in those markets better than the one who did not. The last factor of Entrepreneurship is that the entrepreneur needs to have vision to expand into international markets. Finally, the findings revealed that, without the desire of an entrepreneur to conduct the policy toward an international market expansion, the company would never be able to expand internationally.

Overall, this research finding are consistent with several previous research. (Kunkongkaphan, 2014); (Kunday & Şengüler, 2015); (Tooksoon, Mongkhonkili, & Imaob, 2016); (Rakariyatham, & Ploysri, 2016); (Rahman, Uddin, & Lodorfos, 2017); (Ibrahim & Mustapha, 2019); It suggests that, taking an opportunity in the globalization, in order to increase their international sales volume, Thai SMEs need to progress on their internal management, marketing, and entrepreneurship at the same time. In addition, International SMEs need to concern on the world current business issues as they have no control over these factors. The study showed that the most influence driver of Thai SMEs for international market expansion was the Legal factor. This could imply that, at present time, no matter what kind of the political situation was, the Thai SMEs would not be able to succeed in the international

business without the supports from their government in order to legislate rules and regulations that would encourage the international capacity of the country's SMEs.

### **Research Implication**

The findings from this research could contribute to the new knowledge in order to identify the factors which are crucial for the SMEs business expansion to the foreign countries. The new knowledge reveals that government policy's in order to legislating rules and regulations on customs and trade barriers to help the SMEs. In addition, the government agencies which works related to export activities and VAT return which needed faster speed for procedures were also major drivers for the success of Thai SMEs' international business expansion to success. Moreover, the factors such as culture and language were also very important for the SMEs' international business expansion in order to better understand needs and wants of the international markets. Others factors such as entrepreneurs' vision and entrepreneurs' international communication skills should be taken into consideration when the company need to perform in the globalization.

The findings also could be applied to academic purpose particularly for the new concept of business expansion for Thai small and medium enterprises. In the past, the Thai SMEs entrepreneurs only focus on marketing strategy, few of the entrepreneurs focus on other factors such as external factors, entrepreneur characteristics. However, this current research has found that external factors and entrepreneurs' skills are also as important as the knowledge in marketing. These skills can be trained and improved. The findings in this research can be useful to education institutes and government sectors to conduct and adapt the curriculum on international marketing.

### **Future Research**

Future research should be comprehensive research, which is to collect data from government agencies that represent government tasks toward Thai business coordination in foreign countries. This method will make the research more comprehended and the findings will be more explicit. Additionally, the researcher should collect the data from both SMEs and Large enterprises in order to compare the differences of how they are managing their marketing strategy under the same market condition. This would indicate what SMEs should improve in order to expand into international markets.

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