

Geographical Location and Internationalization: Small and Medium Enterprise Entry into Cambodia, Laos, Myanmar, and Vietnam

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Abstract

Porter (2000) proposed the notion of location as a competitive advantage, a way to generate advantages for regions, nations, and even firms. Small and Medium Enterprises (SMEs) are one factor in the quest to pursue national prosperity. SMEs may create competitive advantages for countries as well as at the regional level, a point that is understood by the Association of Southeast Asian Nations (ASEAN) even though public sector support for SMEs is very limited, especially in the internationalization process. Lack of consistent policy initiation and implementation has led to uncertainty for business firms.

The CLMV region consisting of Cambodia, Laos, Myanmar, and Vietnam is an area that other ASEAN members may explore to find opportunities for international market expansion. This paper highlights factors that influence the internationalization process in respect to the competitiveness of location. The proposed model identifies factors that influence international market expansion, which include *product competitive advantage* and *firm characteristics*. These influences are moderated by *market accessibility*, *financial resources*, *innovation*, and *networking*. The paper also suggests several propositions intended to increase the effectiveness of the internationalization process for SMEs that are interested in regional expansion.

Keywords: *Small and Medium Enterprises, Internationalization, CLMV, competitive location*

Introduction

The process of internationalization involves not only firms, but also economic activities that take place in more than one country. *Internationalization* refers to firm economic activities that take place outside of home country borders. The external expansion of firms leads to growth in both national economies and the world economy (Ruzzier, Hisrich, & Antoncic, 2006). Internationalization developed through multinational firms or large corporations that were ready for cross-border expansion. Axinn and MatthysSENS (2002) stated that every step in the internationalization process remains significant due to rapid environmental changes. Multiple types of economies – e.g. global economy, service economy, new economy, value economy, and the connected knowledge/ network economy – remain integral components in managerial decision making. Many previous researchers and practitioners have focused on the factors that determine the internationalization process. When firms enter international markets, they must consider various entry modes. Internationalization enriches firm capacities in terms of managerial skills and risk mitigation in business practices (Pinho, 2007; Cort, Griffith, & White, 2007; Marchi, Vignola, Facchinetto, & Mastroleo, 2014).

Porter (2000) mentioned internationalization's relevance in the context of competitiveness. This is because competitiveness has become a core issue for generating advantages across nations, regions, and even firms. Snowdon and Stoehouse (2006) explored this idea from Porter's viewpoint. Delgado, Ketels, Porter, and Stern (2012) conducted research in microeconomic perspectives with funding granted by the US National Bureau of Economic Research. This research study aimed to define the foundation of competitiveness by identifying both macroeconomic and microeconomic factors that influence the prosperity of nations.

Porter tried to fill the gap in microeconomics that he had found. The Competitive Advantage of Nations (1990) provided a framework to integrate relevant factors that influence the prosperity of nations. Figure 1 shows the determinants of National Competitive Advantage. The diagram presents associations in the form of a diamond-shaped framework. Each factor is a determinant that leads to success in the internationalization process. The advantage of clusters of firms in a single geographical location increases competitiveness. The geographical concentration of firms allows more efficient

access to specialized suppliers, information, and workforces. However, even Porter's well-known diamond theory has been scrutinized and not seen as a new trade theory (Smit, 2010). Comparative advantage is not similar to country specific advantages; thus, cluster and competition are not a trade pattern. Moreover, factor conditions such as labor productivity and labor mobilization are able to generate prosperity for nations.

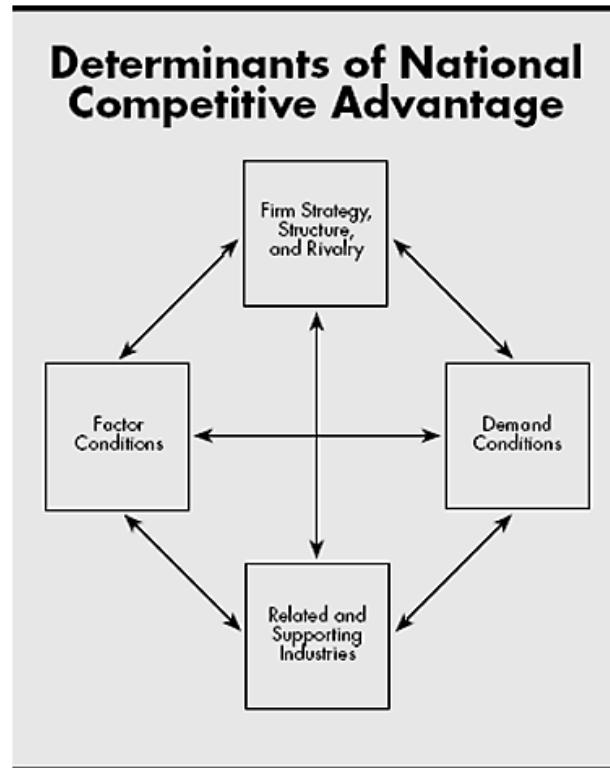


Figure 1. Competitive Advantage of Nations (Porter, 1990)

Porter's perspective emphasized the performance of small and medium sized enterprises (SMEs). The significance of SMEs in the global economy is not less than that of large multinational corporations (Ruzzier, Hisrich, & Antoncic, 2006). The cost of production always plays a significant role in firms' decision making processes, which require accurate and timely information. Marchi et al. (2014) suggested that a recent problem affecting SMEs is their entry into markets, especially when SMEs attempt to venture into international markets, where they often experience a fluctuating rate of success. In addition, limitations affecting SMEs' international expansion occur not only in developed countries, but also in developing countries. SMEs in the ASEAN region also face similar problems. The process of internationalization in member countries still needs more support and guidance. The countries of Cambodia, Laos, Myanmar and Vietnam (CLMV) are often desired destinations. SMEs in Thailand especially are still exploring opportunities for international expansion. Therefore, managerial decision practices and research findings pertaining to large corporations must be modified to provide guidelines and implementation models for SMEs (Fernhaber, Gilbert, & McDougall, 2008; Fornes, Cardoza, & Xu, 2012).

The goal of this article is to explore SMEs' opportunities and constraints in the internationalization process, because their success will lead to prosperity and long term competitive advantages. The expansion of foreign SMEs from neighboring countries into the Cambodia, Laos, Myanmar, and Vietnam (CLMV) region is one of this article's main contributions, and will be discussed accordingly. In addition, regional competitiveness plays a significant role in defining the overall quality of a country as a place to do business. Country specific priorities are important factors in upgrading overall competitiveness (Snowdon & Stoehouse, 2006; Delgado et al., 2012). Regional economic integration among Cambodia, Laos, and Vietnam may lead to bargaining power. Economic reforms in

these three countries have taken place slowly due to socialist economic systems. Industrial manufacturing output differs due to dissimilar levels of technological development (Chheang & Wong, 2012).

An optimistic outlook for this region shows there are more opportunities for entrepreneurs who are trained and ready for international expansion. Most internationalization processes monitored for this study highlight the importance of factors that determine success. These factors include network development by top management, internal commitment, orientation, positioning and time, and recruiting the right staff to provide services that meet the needs of multicultural customers. Finally, top executives require appropriate recommendations from experts with experience in monitoring and identifying the key attributes necessary for internationalization.

The countries in the CLMV region, which consist of Cambodia, Laos, Myanmar and Vietnam, require more studies regarding their readiness for expansion from the perspectives of both researchers and practitioners. Hall (2003) determined SME policy and framework in Association of Southeast Asian Nations (ASEAN) countries has created employment and industrial competitiveness, since SMEs stimulated a wide range of jobs, which lead to competitive advantages (Hall, 2003; Pinho, 2007). The major contributions still focused on the readiness and awareness of SMEs.

Innovation is a key factor that influences SME competitiveness and international expansion (Ruzzier et al., 2006). However, while limited availability of research in the CLMV region remains a major constraint, theories developed from studies of multinational corporations can be modified and applied in practice. Most researchers have focused on large corporations, and conceptual research is more common than empirical studies (Wyatt, Pathak, & Zibarras, 2010). Collaboration between SMEs and large firms that pursued internationalization expansion was undertaken in particular contexts (Ruzzier et al., 2006; Wyatt et al., 2010). The SMEs normally considered how to enter markets. Ruzzier et al. (2006) affirmed that collaboration remains a significant aspect in market entry approaches. The mitigation of market risk was also a significant aspect.

An expected outcome of this study is that SMEs operating in CLMV countries will gain knowledge about current market situations. The overall region can hopefully gain from the benefits of economic integration as well. Hall (2003) confirmed that business environments should be taken into consideration when formulating SME support policies. Encouragement of a policy framework throughout the region may enhance national, regional, and global competitiveness respectively (Snowdon & Stoehouse, 2006). Moreover, strengthening cooperation between governments and regional parties may increase supportive interventions to support the fundamental needs of SMEs that wish to pursue international expansion.

This article aims to identify significant attributes in SME development in the CLMV countries. Hlaing (2014) highlighted the important roles of SMEs in CLMV countries, but obstacles, both tangible and intangible, were identified. These include market accessibility, financial assistance, and technological innovation as challenges to SME development. Lim and Kimura (2009) found that international production/distribution networks in the CLMV region are quite sophisticated. SMEs in neighboring countries that have tried to enter CLMV markets have endeavored to be competitive by designing and marketing new products. Therefore, the objectives of this study are the following:

- a. To explore factors influencing international expansion by nearby SMEs in the CLMV region.
- b. To investigate essential policy framework requirements for SMEs such as market access, financial availability and human capital.

Literature Review

International Expansion of SMEs

Political, economic, social, and technological issues must be considered SMEs' market entry decisions. There are many factors to be considered before selecting an appropriate market. Yiu and Makino (2002) pointed out that transaction costs, which determine the cost of business operations and influence the choice of entry mode, are an important factor that should be considered.

In addition, a cross-national cultural framework was proposed by Hofstede (2003). His four measures of culture are power distance, uncertainty avoidance, individualism, and masculinity; all of these are major factors affecting internationalization (Berry, Guillen, & Zhou, 2010). Consequently, Berry et al. (2010) extended the measurement of cultural factors as part of their theoretical attributes and integrated them with the institutional approach.

Meanwhile, a recent paper by Hitt (2016) compared the institutional approach to theories of culture and institutional distance. The author categorized these factors by national institutions, and explored the relationship between specific institutions and strategies. This is a classical problem faced by small firms that wish to expand internationally, but don't know which places are appropriate for them. For these reasons, international market selection has become an important consideration. Especially when venturing abroad for the first time, market selection is an essential issue. Market situations must be evaluated first to mitigate risk and avoid failure (Marchi, Vignol, Facchinetti, & Mastroleo, 2014).

Competitive Location Decision Making

A strategic location can support firm competitive advantages with respect to production capacity, additional profit, business expansion, better service to customers, and cost reduction (Mazzarol & Choo, 2003). Competitive advantage will not only determine a firm's productivity, but also its prosperity in a suitable location for competing with regional rivals. Intensive technological advancement is able to generate superior productivity for firms. Firms with advanced technology can make progress within their industry as they integrate their knowledge.

Mazzarol and Choo (2003) suggested that owners of small firms should normally seek a location, and especially a manufacturing site, that is close to their home base, rather than struggle with complicated logistical transportation arrangements. This study takes a broad view of small and medium enterprises in terms of governmental support.

Table 1. Internationalization and Focus

Source	SME Internationalization Focus
Pinho (2007)	Ownership-specific advantage Location-specific advantage Managerial-specific advantage Ownership structure
Ruzzier et al. (2006)	Human capital Social capital Firm characteristics (Number of employees, sales) Environment characteristics (Domestic environment, International environment) Process
Wyatt et al. (2010)	Consultancy selection process (human resources)
Indrawati (2012)	Product competitive advantage Market attractiveness Technology and human resources
Minai & Lucky (2011) Lucky (2012)	Individual determinants External determinants Firm characteristics Moderating effects of location and culture
Fornes et al. (2012)	The need to catch up Government roles Possible institutional dependence Culture
Marchi et al. (2014)	Market/Perceived Accessibility Market/Perceived Attraction

SME research approaches are often adapted from multinational firm concepts and theories. Many researchers have attempted to prove similarity among the constraints and problems that small firms face as compared with those of large firms (Boter & Lundström, 2005). Table 1 shows that firm performance is the key success measurement identified by all authors in the internationalization process. The key factors that influence firm internationalization are as follows. Hitt (2016) reviewed the motives in multinational enterprise (MNE) decision making to prepare their international strategies. Smit (2010) also elaborated on the diamond theory or competitiveness of nations to compare trade theories and economic perspectives. These theories are still being monitored as to how well this framework can explain the concept of international trade among countries. Meanwhile, the US National Bureau of Economic Research constructed a working paper by extending Porter's theoretical framework to define the ultimate foundation of competitiveness of nations (Delgado et al., 2012). The generic approach that is used presently might not be appropriate in competitive markets. Therefore, the author aimed to examine and refine the generic approach to use resources to support strategic management decision making (Parnell, 2006).

International Expansion of SMEs in CLMV Region

Hall (2003) noticed that the ASEAN economies have generally adopted the Japanese development pattern approach to establish SME policy, which can be seen in a policy framework. ASEAN generally provides information access to SMEs regarding market accessibility, which is highlighted as a priority task. Market research and intelligence have been initiated to support SME accessibility to markets. The concept of one-stop service, if implemented as in developed countries, represents an appreciated outcome for ASEAN economies, but slow development policy implementation by governments can still pose a handicap. The lack of consistent policy implementation and initiation leads to uncertainty in business firms (Hall, 2003; Chheang & Wong, 2012; Hlaing, 2014; Sisounonth & Kongmanila, 2014).

Table 2 shows the proportion of economic activity accounted for by domestic SMEs in the CLMV region; it is evident that these businesses represent a large percentage of economic activity in many sectors across the region.

Table 2. SMEs Participation in Economic Sectors in CLMV Countries*

Cambodia	Laos PDR	Myanmar	Vietnam
93% of economic sector, processing primary products for the domestic market	99% of economic sector, engaged in retail, wholesale trade, and services, and semi-processing businesses (SMEPDO, 2010)	96% of economic sectors in both rural and urban areas; (92% of manufacturing sector)	99% represented as SMEs, accounting for 77% of workforce, 80% of retail market

*Adapted from Hlaing, 2014

Hlaing (2014) highlighted that in CLMV countries, insufficient sources of financing remains a challenge. SMEs have difficulty in obtaining loans from public and privately-owned banks due to high collateral requirements and delays in processing loans and transactions, as well as administrative barriers. They are discouraged from taking loans from informal banking sectors because of high interest rates. All of the surveyed enterprises have loans, though use of formal banking services is very limited because of institutional policies and procedures, although they are willing to take loans from government. The government opened an SME bank recently, but they find it difficult to lend to the SME sector due to improper records and lack of information. They need to develop transparency so that short-term loans for enterprises will no longer be a problem, and their financial needs can be met. Nearly all surveyed enterprises started with their own investment capital, and borrowed from informal banking sources with high interest rates.

Table 3 outlines constraints in CLMV countries. Fundamental needs can be classified into 4 categories: market accessibility, sources of finance, technological advancement, and management of companies themselves. Some small enterprises specifically referred to the need for managerial capability and skills in rapidly changing environments.

Table 3. SME Constraints in CLMV Countries*

Market Access	Financial Resources	Technology	Management
- Lack of market information and market access	- Limited credit and sources of financing - Collateral required; often issued at very high interest rates	- Limited sources of investment in SME sector - Product need to meet international standards	- Limited access to resources, technology, and government support policies
- Opportunity to expand in new markets	- Inadequate access to financing	- Connectivity, information, & IT	- Lack of management skill
- Global and regional competitiveness increase			

*Sources: Hall, 2003; Chheang & Wong, 2012; Hlaing, 2014; Sisounonth & Kongmanila, 2014

International Expansion of SMEs in Thailand

Lim and Kimura (2009) concluded that Southeast Asian economies face the usual problems of level of entrepreneurial skill, expertise, networking and financial accessibility. Thailand is one of the countries that is still struggling to overcome these limitations. Empirical research confirms that multinational corporations in heavy industries have received significant support when they expand internationally. Some essential technology and knowledge may be transferred to SMEs (Hitt, 2016) from these corporations. However, other industries still struggle with conventional constraints.

Research Approach

As a result of this review of SME internationalization, a conceptual framework for countries in the CLMV region was created from key literature sources. The literature from both empirical and conceptual research has influenced development of an approach to determine SME performance when expanding internationally.

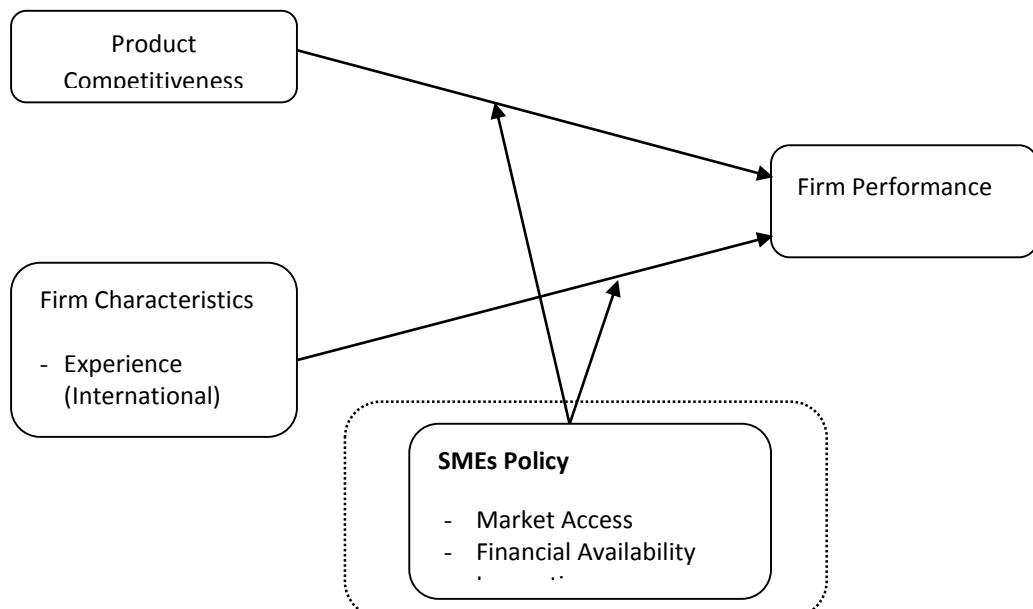


Figure 1. Proposed Conceptual Framework

Research Propositions

This research proposes a conceptual framework as follows.

Factors Influencing SMEs International Expansion

1) Product Competitive Advantage

Indrawati (2012) divided a product's competitive image into three elements: product character, competitive product value (price and quality), and product fulfilment when compared to competitors. The product/customer focus is important as the enterprise ascertains if it is able to produce the right product to meet customer needs (Sisounonth & Kongmanila, 2014).

Proposition 1: Product competitiveness has a direct impact on firm performance when an SME is considering international expansion in the CLMV region.

2) Firm Characteristics

Minai and Lucky (2011) considered the need for firms' employees to possess particular sets of professional skills. The nature of a firm is largely determined by the owner-managerial skill that can enhance a firm's overall performance. Wyatt et al. (2010) wrote of the overwhelming need for job analysis in the context of consultancy. The right person who is able to operate a business or give appropriate recommendations will be a beneficial person for the firm. Human capital is a crucial issue that SMEs face not less than large corporate firms. In addition, the best practice of selecting someone suitable to be the best advisor should be considered based on experience gained from international expansion. SMEs need more support from management teams in the decision-making process. The owners and management should be directly involved in other processes as well (Mazzarol & Choo, 2003).

Proposition 2a: Firm characteristics (international experience) has a positive influence on firm performance in international expansion in the CLMV region.

Proposition 2b: Firm characteristics (human capital) has a positive influence on firm performance in international expansion in the CLMV region.

Moderating Factors Influencing SMEs' International Expansion

3) Market Accessibility

Small firms need to be supported with information to use in selecting markets in which to participate given highly competitive environments (Marchi et al., 2014). Delgado et al. (2012) defined the foundation of competitiveness as well as the factors that influence the prosperity of nations, which include both macroeconomic and microeconomic factors. Furthermore, even Porter's well-known diamond theory is still being scrutinized. Parnell (2006) stated that to enter competitive markets, it is necessary to adopt plans that are in line with the current situation. The generic approach that is still presently used might not be appropriate in competitive markets. The generic approach shows how to use resources to support strategic management decision making. The real value of the topic is intended to define the up-to-date generic approach that can continue being used for a long period.

Proposition 3a: Product competitiveness has a positive influence on SME performance in international expansion to the CLMV region when moderated by policies that support market access.

Proposition 3b: Firm characteristics (international experience) has a positive influence on SME performance in international expansion to the CLMV region when moderated by policies that support market access.

Proposition 3c: Firm characteristics (human capital) has a positive influence on SME performance in international expansion to the CLMV region when moderated by policies that support market access.

4) Financial Resources

Hall (2003) pinpointed accessibility to financial resources as a major factor affecting the growth and success of SMEs. There is an urgent case for building up efficient financial markets and regulatory infrastructure. Unaffordable interest rates are also an important issue that can be a barrier

to SME access to finance resources. Financial problems are normal and common problems in SMEs. Their limited accessibility to financial resources and obvious lack of experience in complicated lending processes can also prove to be a barrier (Sisounont & Kongmanila, 2014). The promotion of financial accessibility is also limited in particular cities and regions. Inequality is also a big problem for SMEs that have inadequate information and knowledge, particularly in less developed areas (Fornes, Cardoza, & Xu, 2012).

Proposition 4a: Product competitiveness has a positive influence on SME performance in international expansion to the CLMV region when moderated by policies that support availability of financial resources.

Proposition 4b: Firm characteristics (international experience) has a positive influence on SME performance in international expansion to the CLMV region when moderated by policies that support availability of financial resources.

Proposition 4c: Firm characteristics (human capital) has a positive influence on SME performance in international expansion to the CLMV region when moderated by policies that support availability of financial resources.

5) Technology and Innovation

The most important factor for SMEs in attaining success is innovation. Successful SMEs not only justify the innovation they create, but they need to bring innovation to an international level and let markets recognize it. To be competitive, innovation requires flexibility suitable for market situations, and the time for launching new products in the market is important. Technology is the key economic driving force, and technological advancement may also enhance scientific know-how, leading to rapid changes in market context as well as in demand. Therefore, technical capacity needs to be monitored since it is a key factor. Flexibility in production processes helps firms adapt to significant market changes. More flexibility can minimize risks and uncertainties in firm operations (Axinn & Matthysse, 2002; Hall, 2003; Ruzzier et al., 2006; Indrawati, 2012). In many industries, SMEs have received helpful technology transfers. ASEAN recognizes the importance of encouraging governments of member countries to continue their support of innovation and technology transfer (Hall, 2003).

Proposition 5a: Product competitiveness has a positive influence on a firm's performance in international expansion to the CLMV region when moderated by policies supporting innovation.

Proposition 5b: Firm characteristics (international experience) has a positive influence on performance in international expansion to the CLMV region when moderated by policies supporting innovation.

Proposition 5c: Firm characteristics (human capital) has a positive influence on performance in international expansion to the CLMV region when moderated by policies supporting innovation.

6) Network Approach to Internationalization

Network-based business research focuses on international relationships among members. Long-term relationships can be enhanced by sharing knowledge regarding technological innovation, financial accessibility to markets, and access to the international environment. Evidence can be found that knowledge sharing, networking, and cooperation among members enhanced awareness of opportunities (Ruzzier et al., 2006; Basly, 2007)

Proposition 6a: Product competitiveness has a positive influence on a firm's performance in international expansion to the CLMV region when moderated by policies supporting international networking.

Proposition 6b: Firm characteristics (international experience) has a positive influence on a firm's performance in international expansion to the CLMV region when moderated by policies supporting international networking.

Proposition 6c: Firm characteristics (human capital) has a positive influence on a firm's performance in international expansion to the CLMV region when moderated by policies supporting international networking.

Firm Performance

This study of SMEs takes into account the performance of small businesses, as well as their entrepreneurial performance. However, within the context of this study, the term "firm performance" is used in order to align with general context. Furthermore, small business performance measurement has been viewed in two major dimensions: financial and non-financial measures. Firm performance may be related to human capital, financial capital, and social capital. Thus, researchers are divided on which of these measurements provide the best way to measure small firm performance (Minai & Lucky, 2011; Sisounonth & Kongmanila, 2014)

Discussion and Conclusions

This proposed conceptual framework seeks to define the major factors that influence SME performance in international expansion to the CLMV region. Product competitiveness and firm characteristics have been empirically shown to be associated with successful international expansion by SMEs (Lucky & Minai, 2001; Mazzarol & Choo, 2003; Indrawati, 2012, and Sissounonth & Kongmanila, 2014). Appropriate market accessibility, financial availability and support, and technological innovation determine the successful level of international expansions (Axinn & MatthysSENS, 2002; Hall, 2003; Parnell, 2006; Ruzzier et al., 2006; Indrawati, 2012). Nevertheless, Lim and Kimura (2009) pointed out the importance of regional networking cooperation. Southeast Asian countries face many challenges if they wish for such cooperation to become a reality. Therefore, the conceptual model suggests that networks that accelerate product competitiveness are an important factor in achieving success (Ruzzier et al., 2006; Basly, 2007). In some countries, SMEs in certain industries have received special attention from the public and private sectors, while those in other industries are still hoping for similar opportunities. The classical constraint remains financial resource availability. Cooperation between the government sector and private sector is also one of the key areas that might help SMEs counteract the obstacle of financial limitations. Innovations that enable financial institutions to offer assistance in a variety of packages and encourage repayment by SMEs (Lim & Kimura, 2009) enhance their chances of success.

This study not only highlighted a conceptual model for SME development in the CLMV region, but also offered a significant contribution to SME practitioners. It provides guidance to facilitate both academic research and real managerial practice in small and medium enterprise firms. Academic research and real industrial experience are expected to enhance the goal of SME internationalization. Attainment of success will not only affect the business firms themselves, but also contribute overwhelmingly to development of national and regional industries and societies. Pinho (2007) discussed the importance of international expansion by firms if they have the ability to innovate and create market capacity, as well as to select the right markets for themselves. International expansion by SMEs will tend to be successful in the long run because of low cost operations and preparation that allows avoidance of risks.

Research about the internationalization process of SMEs and multinationals – especially in the CLMV region – is still insufficient (Boter & Lundström, 2005). Research and practices by large corporations needs to be adapted by SME participants in the context of the CLMV region. Both qualitative and quantitative research in this area will be needed in the future. Empirical research in the region is also insufficient for both academic researchers and practitioners. More research about startups may provide opportunities for network cooperation to become stronger as these fledgling businesses encounter an increasingly competitive business world.

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