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Foreign Market Entry Strategies for Australian and Singaporean SMEs: Findings of a two country comparative study

By

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Introduction

The opening up of the world's markets via new legislative, technological and management developments, has resulted in an increased focus on international trade and competitiveness (Garelli, 1994:13). These trends have been particularly felt in countries such as Australia and Singapore. Both economies are relatively open to the forces of international competition. As a result of these pressures, government policy in the two countries have focused upon encouraging international trade as a means of enhancing economic growth.

In recent years attention has been paid to the Small and Medium Enterprise (SME) sector (EDB, 1995; Bureau of Industry Economics, 1993; Keating, 1993; AMC, 1993; Goh, 1993). This sector has attracted interest due to its relative importance. It has been estimated, for example, that firms with fewer than 20 employees generated around 88 per cent of all employment growth in the United States over the period from 1981 to 1985 (Birch, 1985; 1987). Within Australia SMEs are considered to account for around 96 per cent of all business enterprises, employ half the private sector work force, and a comprise a third of total employment (Beddall Report, 1990). Further, many SMEs are making an active contribution to Australia's international trade. This view was reinforced by the recent study of services exports from Australia *Intelligent Exports* (LEK, 1995) which found that 65 per cent of all Australian services exporters were firms with annual revenues of less than $5 million. As noted by the report:

"The nation's small to medium service exporters may not have made big waves in terms of revenue, but as a group they do make a big contribution to employment and innovation" (LEK, 1995:32).

Within the manufacturing sector the smaller firms were found to be less likely than larger ones to match international best practice (AMC, 1994). However, of those SME manufacturers who had successfully responded to market opportunities and modernised, approximately one third were experiencing export growth of greater than 50 per cent during the period 1991 to 1993 (AMC, 1994:39).

The United Nations Conference on Trade and Development (1993), has found that an increasing number of transnational enterprises are small or medium, and that these firms are more likely to invest in developing countries than their larger counterparts. These smaller firms are estimated to number as many as 37,000 with over 205,000 affiliates.

The opening up of global markets via the liberalisation of tariff controls has provided greater opportunities for SMEs to test their products in international markets. Technology and management innovations have also provided the SME with a wider range of complimentary or alternative strategies for foreign market entry other than direct export (Welch and Luostarinen, 1988; D'Souza and McDougall, 1989; DITC, 1990; Terpstra and Yu, 1990).

Considerable research attention has been given to the internationalisation strategies of the larger multi-national company (Bartlett and Ghoshal, 1987; Agarwal and Ramaswami, 1992; Hill et.al., 1990). By comparison the international market entry modes of SMEs have hitherto received scant attention. Small firm characteristics such as limited financial and managerial resources, personalised objectives of owner/managers, and informal centralised planning and control systems, indicate that the international strategies and structures of SMEs may differ from those of larger firms (Cavusgil, 1984; Roth, 1992).

This study examines the market entry modes of a representative sample of Australian and Singaporean SMEs. It identifies several significant differences in their choice of market entry mode, and examines the possible explanations for these differences.

Theories of internationalisation

Over the last two decades there has been a growing body of research examining the internationalisation of firms. This literature tends to be broad, pluralistic and poorly integrated (Johanson and Weidersheim-Paul, 1975; Dunning; 1988; Hill, et.al., 1990). Nevertheless, two major opposing perspective's have emerged. The first of these is the internationalisation perspective as expressed by the

Uppsala Internationalisation Model (Johanson and Vahlne, 1977; Bilkey, 1978; Cavusgil, 1984; Reid, 1981). This suggests that a new foreign market entrant should gradually become involved in the foreign market through a set pattern of entry modes beginning with exporting, moving through the establishment of an overseas sales subsidiary, and finally the establishment of an offshore production facility (Johanson and Wiedersheim-Paul, 1975). An alternative view is that encompassed by the contingency perspective (ie. Eclectic Paradigm and Transaction Cost Analysis). This suggests that a firm may choose any type of foreign market entry mode based on key variables (Williamson, 1985; Anderson and Gatignon, 1986; Gatignon and Anderson, 1988; Dunning, 1988).

Earlier research into the internationalisation process undertaken in the Nordic countries generally pointed to an evolutionary, sequential build-up of foreign commitments over time (Johanson and Weidersheim-Paul, 1975; Johanson and Vahlne, 1977; Juul and Walters, 1987). These findings were supported by similar research in such countries as the United Kingdom (Buckley, Newbould and Thurwell, 1977), Japan (Yoshihara, 1978), Turkey (Karafakioglu, 1986) and Hawaii (Hook and Czintoka, 1988). However, more recent research suggests a departure from the incremental process as some firms seek to speed up their entry into international markets (Norvell, Andrus, and Gogumalla, 1995; Sullivan and Bauerschmidt, 1990; Millington and Bayliss, 1990; AMC, 1993).

Such trends may be explained as an outcome of the pressures and opportunities for more rapid internationalisation which have emerged in recent years. Advances in communications technology have enabled more effective control of overseas activities by managers than was previously possible (Badrinath, 1994; Cavusgil, 1994). Government initiatives have also contributed to accelerating the internationalisation of firms (Yeo, et.al., 1993).

Several theories have been proposed to explain the choice of foreign market entry modes by firms. The four most common modes of foreign market entry studied are exporting, licensing, joint venture, and sole venture (Agarwal and Ramaswami, 1992). Because all of these modes involve resource commitments (albeit at varying levels), a firm’s initial choice of a particular mode are difficult to change without considerable loss of time and money. Entry mode selection is therefore a critical decision.

Dunning (1980; 1988) has developed a framework for explaining choice among exporting, licensing, joint venture and sole venture modes. The main factors influencing choice of market entry mode are advantages in ownership, location and internalisation. The first relates to the possession of assets and skills. A firm's asset power is reflected by its size (Yu and Ito, 1988; Terpstra and Yu, 1988), multinational experience (Gatignon and Anderson, 1988), and ability to develop differentiated products (Anderson and Coughlan, 1987). The location advantages relate to such things as market potential and investment risk. Market potential can be measured by its size and growth (Khoury, 1979; Terpstra and Yu, 1988). Investment risk by economic and political conditions or government policies (Agarwal and Ramaswami, 1992). Finally, the internalisation advantages are concerned with the firm's ability to transfer ownership-specific advantages across national borders (Anderson and Weitz, 1986)

With respect to foreign market entry modes, larger firms tend to prefer sole venture or joint venture modes in low potential markets. By contrast, smaller firms prefer no entry or joint venture modes in high potential markets to reduce costs and risk. Where high contractual risks exist, firms with highly differentiated products prefer investment over exporting. However, where investment risk is high export modes are preferred (Agarwal and Ramaswami, 1992).

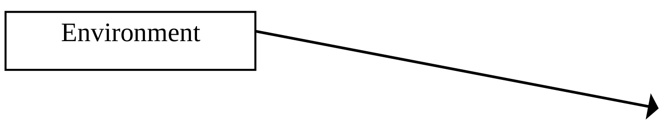
Choice of optimal foreign market entry mode is viewed as a process of trade-offs between four critical variables: risk, return, cost, and control (Rugman and Verbeke, 1992; Hill and Kim, 1988; Goodnow, 1985; Anderson and Gatignon, 1986; Anderson and Coughlan, 1987). Known as transaction cost analysis, the concept suggests that the firm will internalise activities that it is able to perform at lower cost, and will rely on the market for activities in which other providers have an advantage.

The Internationalisation Process for the SME

Several studies suggest that the factors which determine international marketing effectiveness for Multi-National Corporations (MNCs) can not be directly transferred to smaller firms (Kirpalani and MacIntosh, 1980; Baird, Lyles and Orris, 1994). For example, the international product life cycle (PLC), whereby the technological level reflected in new products provided MNCs with an edge in export, is often not applicable to smaller firms with small R&D capacity and budgets (Cavusgil and Kirpalani, 1993). While the internationalisation literature on MNCs is substantial, little research has been devoted to the SME sector.

Although empirical research measuring the performance of SMEs can be found in international marketing literature, the focus is frequently only upon exporting (Bilkey, 1978; Cavusgil, 1984; Reid, 1981). A major focus of research into the international business activities of SMEs has concentrated on their propensity to export (Dichtl, Leibold, Koglmayr and Muller, 1984; Welch and Weidersheim-Paul, 1980; Cavusgil and Nevin, 1981). Another focus has been on export performance, particularly the factors that may contribute to export success (Aaby and Slater, 1989).

Two approaches are commonly employed to measure export performance. The first involves a categorisation of exporters and non-exporters (Cavusgil and Nevin, 1981; Burton and Schlegelmilch, 1987; Christensen, da Rocha and Gertner, 1987). The second measures export performance along some dimensions of success such as export as a proportion of total sales (Bijmolt and Zwart, 1994; Czinkota and Ursic, 1991; Moini, 1995); growth in export sales (Cooper and Kleinschmidt, 1985; Kirpalani and MacIntosh, 1980); export profitability (Kaynak and Kuan, 1993; Beamish, Craig and McLellan, 1993); and absolute export sales volume (McGuiness and Little, 1981; Bello and Williamson, 1985). However, there appears to be no general consensus regarding the importance of many variables that have been identified as determinants of export success.



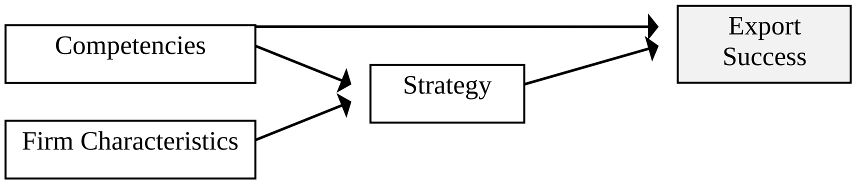


Figure 1: Main Factors Relating to Export Success (Aaby and Slater, 1989:9).

Figure 1 provides an overview of the four main groups of variables which are generally associated with export performance. The external environment can influence the export success of small firms via such things as regulation of domestic markets, changes in demand, product and process technology, suppliers, competition and growth rates in the industry (Baird, Lyles and Orris, 1994). The geographic and cultural or "psychic distance" to export markets have also been identified as important environmental factors (Johanson and Valhne, 1977; Cavusgil, 1984; Dichtl, et.al, 1990). Trade barriers, both tariff and non-tariff are also environmental factors likely to influence export performance (Evangelista, 1993; Hook and Czinkota, 1988).

Also important in determining export success are internal firm-specific variables relating to the characteristics of the enterprise and its competencies. Particular importance has been placed on formal export planning and information acquisition prior to exporting (Aksoy and Kaynak, 1994; Bijmolt and Zwart, 1994). The implementation of a process for systematically exploring, analysing and planning for export seems to be a very powerful discriminator between successful and unsuccessful exporters (Aaby and Slater, 1989). Management commitment to exporting has also been strongly linked to export success by many studies (Louter, Ouwerkerk and Bakker, 1991; Cavusgil and Kirpalani, 1993; Beamish, et. al., 1993; Evangelista, 1993).

Finally, the importance of strategy, in the form of market entry mode, has been recognised as an important filter for firm characteristics and competencies in determining export success. However, some divergence of views exists in the literature regarding the value of export channel structure to export success. Some studies have failed to find a relationship between export success and market entry mode (Bonaccorsi, 1993; Munro and Beamish, 1987). By contrast Ayal and Raban (1987) found that performance in terms of new product success was significantly higher for firms employing wholly-owned branches or subsidiaries rather than those using overseas agents or distributors.

Market entry modes adopted by SMEs

Papadopculos (1987) argues that large firms have an unlimited number of foreign market entry options, while SMEs are limited to exporting in their international operations. This is attributed to a lack of human resources, capital, production capacity and access to sophisticated market research information (Kaufmann, 1995; DFAT, 1995; Baird et.al, 1994; Hansen et. al, 1994). This may result in a restriction being placed on the growth of SMEs in the internationalisation process.

A wide variety of foreign market entry modes are used by SMEs including: sole venture, agents, distribution networks, strategic alliances, licensing and joint ventures (DFAT, 1995). Licensing has been found to be a relatively common entry mode for SMEs in Australia (Carstairs and Welch, 1982). Joint ventures and other cooperative arrangements can be a useful way of commercialising products in overseas markets where firm resources are scarce (Shan, 1990; Van Horn, 1990). However, such cooperative arrangements are not frequently adopted by small firms (D'Souza and McDougall, 1989). Direct exporting via agents or distributors appears to be the most popular form of market entry mode for non service SMEs (Miesenbock, 1988; Vandermerwe and Chadwick, 1989). However, there is evidence to suggest that a higher degree of export success is likely via joint venture alliances rather than sole venturing among smaller firms (Baird, et.al., 1994).

The choice of direct or indirect foreign market entry channels by SMEs appears to be linked to two factors. The first is the volume - or the firm's exports as a percentage of total sales volume. The second is the degree of after sales service required in the support their products (Ramaseshan and Patton, 1994). Furthermore, sustained success in international markets among SMEs has been strongly associated with such factors as: management skills, access to finance, attention to customer needs, support of associated firms, knowledge of competitors, and strategic planning (DFAT, 1995).

Most of the research into foreign market entry mode has been concentrated on the large firm. It is questionable whether the strategies employed by large firms are appropriate for SMEs. The characteristics of the small firm - limited finance, managerial resources, personalised objectives by owners and more informal planning and control mechanisms - suggest that SME market entry strategies may be different to that of large firms (Cavusgil, 1984; Roth, 1992).

Differences between Australia and Singapore

The importance of managerial variables to the success of SME export performance has been highlighted. It may be assumed that any differences between managers in SMEs in Australia and Singapore would have an important bearing upon the level of export performance.. Hofstede's (1980) comprehensive study of cross-cultural managerial values found significant differences between Australian and Sinaporean managers. Compared with Singapore, Australia was characterised as having smaller "power-distance" (the difference in power between a manager and subordinate); higher "individualism" (the degree of autonomy and independence from the organisation displayed by managers); and relatively weaker uncertainty avoidance (tolerance of ambiguity and need for rules or structured roles). Australia is essentially a member of the "Anglo" group of countries characterised by a "village market" organisational structure. Singapore groups with other Sino-oriented Asian countries with a "family bureaucracy" approach to organisational structure.

Other comparative studies have found Australian managers more likely to experience difficulties when faced with changes to group power, while their colleagues in Singapore are more sensitive to changing qualitiy of information (Bottger and Yetton, 1987). Such differences are explained by the *greater power-distance* experienced by managers in Singapore who rarely face problems from subordinates challenging their decisions. By contrast, Australian managers are more likely to face subordinate's questioning their decisions if they are considered unsatisfactory. If information quality is poor, Singaporean managers make and implement less optimal outcomes than Australians. However, Australian managers who choose to make their decisions in isolation are at risk of making inadequate choices (Davis, 1988).

In terms of exporting behaviour, studies of Australian and Singaporean SMEs have not found significant differences in their attitudes towards exporting, motivation to export, managerial practices or problems. Major differences have been found between the relative importance placed upon their overseas or domestic markets. While Australian SMEs were primarily focused on their domestic markets, firms in Singapore viewed success in exporting as their sole objective (Krasnostein, Elliott and Everett, 1991).

Few Australian SMEs possess a strong export orientation (Tabakoff, 1994). Australia has been criticised for lacking an "export culture", with SMEs either not fully exploiting export opportunities (AMC, 1993), or lacking adequate management commitment to exporting (Midgley, 1991). This low export orientation among Australian managers has been attributed to a lack of suitable international business skills (Midgley/NBEET, 1990). Of particular concern has been the difficulty Australians face in entering Asian markets where language and cultural barriers are a potential obstacle (Miller and Leptos, 1987).

The relatively small protected and insular domestic market, too much focus on short term profits and excessive dependence on government support have been identified as causes of poor managerial performance in Australia (Keil, 1986). Further, Asian managers have been found to view Australian managers as significantly less impressive than their colleagues from Britain, the United States, Germany, Japan and Taiwan on many areas of skill and ability (Savery, Mazzarol and Dawkins, 1994).

Since the 1960s Singapore's annual economic growth rate has averaged 8.4 per cent as compared to 1.7 per cent in Australia (World Bank, 1993). The real GDP of Singapore has increased ten-fold to S$62 billion in 1990, and its per capita income has risen more than 62 times to about S$22,000. This impressive growth appears to be related to the export oriented trade policies adopted by Singapore, and supported by foreign multi-national corporations (MNCs) (Balassa, 1988; Hughes, 1993; Tan and Wee, 1995). Despite such impressive performance, much of Singapore's export revenue is generated by foreign owned subsidiaries of MNC's (Yeo, et.al., 1993). In the early 1980's Singapore had the highest level of foreign ownership in East Asia (Hill, 1990), a fact which has caused concern to the country's government (Chia, 1985; 1986). Only a mere 6.3 per cent of Singapore companies were found to be investing overseas in 1993 (MOF, 1993). Since then the Singaporean government has played an active role in encouraging Singaporean firms to make direct private investments regionally in the "Growth Triangle" of Singapore, Johore and Batam, as well as China, India and Vietnam.

A survey of Australian and Singaporean SMEs

During 1995 a survey was undertaken to examine the foreign market entry strategies of SMEs in Australia and Singapore. A total of 415 SMEs were contacted by telephone and fax following their identification in the Austrade Australian Exports Directory and Singapore Exporters' Directory. The final sample of 104 firms comprised 76 SMEs from Australia and 28 from Singapore.

Although relatively small samples they were found to closely match the true populations of SMEs in both countries in terms of industry demographics. The majority of respondent firms had fewer than 100 employees with just over 80 per cent of Australian and just over 70 per cent of Singaporean firms being small businesses. Despite their size, 48 per cent of Australian and 59 per cent of Singaporean firms had annual turnovers greater than $5 million. No significant differences were found to exist between the two countries in terms of turnover.

The majority of firms from both countries were relatively new entrants to international markets, with most having fewer than five years of export experience. It was also found that firms from both Australia and Singapore were overwhelmingly focused on Asia as their main export market.

The survey measured market entry modes as well as firm performance and degree of internationalisation. Performance was measured using a ratio of foreign sales to total sales (FSTS), and a ratio of foreign profits to total profits (FPTP) over the previous three financial years. This measure of firm performance was originally used by Moini (1995). Further, foreign growth in the past three years was selected because this criteria has been shown to be an important determinant of internationalisation behaviour (Lee and Yang, 1990; Moini, 1995). Using these measures firms were classified into the following categories:

- A good performer shows an average growth of greater than 10 per cent of either FSTS and/or FPTP over the previous three financial years

- A poor performer shows an average growth of less than 10 per cent of either FSTS and/or FPTP over the last three financial years.

No significant differences were found (to a level of 0.05) between Australian and Singaporean SMEs in terms of performance following a chi-square test.

Structural Degree of Internationalisation

The study measured internationalisation as a ratio of its growth in foreign assets to total assets (FATA) over the previous three years. Recent research has shown that firms are departing from the incremental approach to internationalisation as they seek to by-pass the steps to commitment, resulting in an acceleration of the process (Sullivan and Bauerschmidt, 1990; Norvell, et.al, 1995; Millington and Bayliss, 1990).

The study found significant differences (at the 0.05 level) between Australian and Singaporean SMEs in their structural degree of internationalisation. It was found that Australian firms were mostly in their early stages of internationalisation with 85 per cent having a relatively low level of FATA. By comparison, Singaporean firms were more internationalised with 36 per cent having moderate levels of FATA, and 25 per cent having high FATA levels. These results are shown in Table 1.

Table 1: Structural degree of internationalisation (foreign assets to total assets)

Degree of FATA	Australia	Singapore
Low	85%	39%
Moderate	8%	36%
High	4%	25%
	n = 75	n = 28

[Chi-square = 24.96; d.f. = 2; Signf = 0.000]

The reason for this higher degree of internationalisation among SMEs in Singapore is subject to some conjecture. It was first considered that the Australian firms may have been less internationalised due to the heavy concentration of Australian firms in the agribusiness sector (18% of total). However, a chi-square test of the relationship between industry category and degree of internationalisation found no significant relationships (to a 0.05 level).

One explanation for the higher degree of internationalisation among Singaporean firms may be the success of the “regionalisation push” of the Government of Singapore during recent years (Goh, 1993). The Government of Singapore has also devoted efforts to the establishment of industrial parks in other Asian countries in the region (MOF, 1993). This may offer an infrastructure conducive to the internationalisation of SMEs. Singapore’s government has also actively encouraged internationalisation via a combination of tax and financial incentives (EDB, 1995).

Choice of international market entry modes

A range of market entry modes were examined in the study including: direct export, licensing, strategic alliances, franchising, manufacturing/wholly-owned subsidiary, use of foreign distributors and overseas agents, joint ventures and direct acquisition. Respondent’s were asked to rank these on a seven point scale in terms of their importance to them.

A *t* -test of the differences between the mean scores for these scales found significant differences (at the 0.05 level) between Australian and Singaporean firms in their choice of market entry mode. Singapore SMEs were more likely to consider licensing, franchising, wholly-owned subsidiaries, joint ventures and direct acquisitions as important. Although these entry modes range on a continuum in terms of both resource commitment and risk, firms in Singapore were found to be significantly more likely to employ entry modes which require relatively more resource commitment and risks.

No significant differences were found for the other market entry modes, including direct export, strategic alliances, use of foreign distributors and independent overseas agents. Table 2 summarises these findings.

Table 2: Comparisons of Australian and Singaporean SMEs Market Entry Modes

[* indicates a significant difference at the 0.05 level between the mean scores] [Scale measured importance of market entry modes to the respondent, where 1 = totally unimportant and 7 = extremely important].

	Australia		Singapore		
Market entry mode:	mean	std. dev	mean	std. dev	*t* - value
Direct exporting	5.80	1.81	5.64	1.77	0.70
Licensing	**2.13**	**1.82**	**3.29**	**1.98**	**2.52***
Strategic alliances	3.64	2.22	4.33	2.06	1.30
Franchising	**1.85**	**1.64**	**3.62**	**2.08**	**3.58***
Manufacturing/subsidiary	**2.20**	**1.88**	**4.43**	**2.18**	**4.65***
Foreign distributor	3.95	2.49	4.33	2.39	0.63
Independent agent	3.34	2.27	3.86	2.15	0.93
Joint venture	**2.93**	**2.17**	**5.38**	**2.04**	**4.81***
Acquisition	**1.72**	**1.48**	**3.48**	**2.11**	**3.57***

Why firms in Singapore should be more likely to make use of these forms of market entry requires explanation. This finding could be attributed to two factors. The first is that many Singaporean SMEs seek to globalise by accessing market opportunities and alliance partners in Malaysia and Indonesia. This is in line with the Government of Singapore's policy of cooperation on a regional basis (Yeo, et.al, 1993). Another possible reason is the concentration of Singaporean SMEs in the retail and services sector (25% of total). This allows for a wider range of market entry choices as compared to their counterparts in Australia, many of whom were in agribusiness and may therefore be limited to exporting or using agents.

Effects of Market Entry Modes on Performance

The results of the effects of nine market entry modes on performance are presented in Table 3. In investigating the choice of international market entry modes used by good and poor performers, it was found that there were significant differences among them. It was found that good performers were significantly more likely to make use of franchising, licensing, manufacturing via a wholly-owned subsidiary, and acquisition as foreign market entry strategies.

Table 3: Market Entry Mode Effect on Performance

[* indicates a significant difference at the 0.05 level between the mean scores]

Influencing factors	**Good Performer**		**Poor Performer**		
	Mean	SD	Mean	SD	t-value
Direct exporting	6.00	1.38	5.60	2.04	0.88
Licensing	**3.11**	**2.11**	**1.94**	**1.57**	**2.82***
Strategic alliances	3.92	2.24	3.73	2.17	0.44
Franchising	**2.95**	**2.21**	**1.95**	**1.60**	**2.14***
Manufacturing/Wholly-owned subsidiary	**3.42**	**2.38**	**2.27**	**1.87**	**2.61***
Foreign distributor	4.05	2.44	3.97	2.52	0.08
Independent overseas agent	3.76	2.19	3.40	2.25	0.34
Joint venture	3.82	2.23	3.14	2.21	1.15
Acquisition	**2.73**	**1.95**	**1.86**	**1.59**	**1.98***

Differences between Australian and Singaporean SMEs

The study found no significant differences between Australian and Singaporean SMEs in terms of employee size, turnover, years of international experience, export performance level or choice of overseas market. However, significant differences were found in industry types, structural degree of internationalisation, and choice of foreign market entry.

It was postulated that Australian SMEs were less internationalised (ie. had lower foreign assets as a proportion of total assets - FATA), and selected less risky modes of market entry (ie. direct exporting, use of foreign distributors or agents) due to their concentration in agribusiness. To examine this issue the relationship between industry type and degree of internationalisation was subject to a chi-square test. This found a significant relationship (at the 0.05 level) between FATA and industry type for Australian SMEs, but not for those in Singapore. Within the Australian sample 84 per cent of agribusiness and mining firms; 91 per cent of manufacturing, building and construction firms; and 84 per cent of services and related firms had average foreign assets to total assets of less than 5 per cent. By comparison Singaporean SMEs were more evenly spread in their degrees of internationalisation for all industries. These findings suggest that Australian SMEs may be less inclined that their counterparts in Singapore, to commit relatively more resources and risks in their expansion overseas. We note however, that this finding needs to be treated with some caution. The relatively small sample sizes particularly in the Singapore group make the results somewhat difficult to extrapolate with confidence.

Possible reasons for Country Differences

Although we caution over the size of the sample, the results do suggest a trend that is worthy of further research. They raise the question of whether Singaporean SMEs may be more internationalised than their Australian counterparts ? Further, although no significant differences could be found between the SMEs of the two countries in terms of performance, firms in Singapore were found to be making significantly greater use of the higher risk, higher involvement market entry strategies. That these strategies were also significantly associated with high performance suggests that over time SMEs in Singapore may gain a competitive advantage. Why Singaporean SMEs should display such characteristics may be answered by an examination of such key issues as government support and the presence of overseas Chinese networks.

The active involvement by the Government of Singapore in the development of industrial parks in China, India, Malaysia and Indonesia in recent years has created an infrastructure that may provide a ready conduit for SME internationalisation (Goh, 1993; MOF, 1993). Some examples of this have been the “Growth Triangle”, Singapore Suzhou Township, Wuxi Industrial Park, the Ningbo 2000 project and India’s Bangalore IT Park.

This has also been backed up by attractive taxation and financial incentives by the Government of Singapore. The decision to establish an offshore manufacturing wholly-owned subsidiary or acquire and operate a pre-existing one will often be contingent upon the availability of finance. As noted by this study, Singaporean SMEs were significantly more likely to make use of this form of foreign market entry mode than SMEs in Australia. The generous financial support offered by the Government of Singapore may be a contributing factor. For example, the Overseas Enterprise Incentive scheme provides tax exemption on qualifying income from overseas for up to 10 years. The Business Development Scheme assists firms to identify overseas investment opportunities through study missions. Finally, the Franchise Development Assistance Scheme is designed to help defray 50 per cent of the costs of franchise development and marketing overseas (EDB, 1995).

The greater propensity for Singaporean SMEs to make use of joint ventures than their Australian counterparts may be partially explained by the finding that Singapore SMEs made significantly (at the 0.05 level) greater use of formal information acquisition. Formal information gathering allows an SME to obtain local knowledge and expertise through cooperative arrangements such as joint ventures or strategic alliances. A comparatively large proportion of Singaporean SMEs enter Asian markets (eg. Malaysia and Indonesia) where joint ventures are required by law (Yeo, et.al., 1993).

Although this study could not find any relationship between “formal information acquisition” and performance, it is suggested that Australian firms seriously consider the development of such a process. This factor has been found to be a powerful discriminator between successful and unsuccessful exporters in previous studies (Aaby and Slater, 1989).

Another factor that may explain the differences between Australian and Singaporean SMEs in their market entry modes is the presence of the overseas Chinese network. The importance of such overseas networks has been highlighted by several research studies. According to Tan and Wee (1995), overseas Chinese investment in Southeast Asia and China is second only to that of Japan. Already, the overseas Chinese account for some 60 to 70 percent of cumulative total investment in the whole of China. In Guangdong, out of the $20 billion invested in 15 projects by the end of 1993, overseas Chinese accounted for over 80 per cent. In Fujian, overseas Chinese accounted for more than 70 per cent of the $3.5 billion invested in 4,000 projects during 1994.

The power of the overseas Chinese networks is evidenced by Indonesia. In that country the ethnic Chinese comprise a mere four per cent of the total population. However, they contribute $98 billion per annum to GDP which is estimated to comprise 50 per cent of the economy’s business output (Lasserre and Schutte, 1995). Based on family and clan links, the overseas Chinese provide a potential source of finance, joint venture partners and strategic alliances.

Managerial and Policy Implications

The implications for this study can fall into two categories: managerial and public policy. What types of strategy do the firms need to ensure success in entering a particular marketplace? How do governments or public organisations assist SMEs in increasing their commitments to internationalisation?

The results indicate that Singaporean SMEs are significantly using market entry modes that have a major positive impact on performance. Therefore in order to achieve a higher growth in international sales and profits, Australian SMEs should review their present strategies. In particular, licensing and franchising should not be seen as a loss of control over a firm’s technological knowledge and expertise, but rather as a springboard to other forms of more sophisticated market entry modes such as joint venture, manufacturing or acquisition.

Interestingly, Singaporean SMEs are found to be seeking information about international marketing significantly more than their Australian counterparts. Market knowledge is a driving force for any firm to commit more resources to its foreign market in the internationalisation process (Johanson and Vahlne, 1990). In order that Australian SMEs gain confidence in selecting more advanced alternative market entry modes, establishing a formal information acquisition system to acquire information about foreign markets, techniques of foreign operations, and ways of doing business and is considered to be highly essential.

As psychic distance is considered to be an important influencing factor in affecting performance, it is important that the owners/managers of SMEs develop strong relationships with their overseas partners. This may involve making frequent overseas visits, showing a firm commitment to a long term working relationship, and showing a keen interest to learn and understand the overseas partner's culture. According to a large scale survey of business leaders in five Asia-Pacific countries, Australian managers are generally viewed as inferior to their major competitors in such aspects as their ability to look well into the future, and ther willingness to spend time building relationships when negotiating business deals (Savery, Mazzarol and Dawkins, 1995).

As information about foreign markets is essential in instilling confidence in SMEs to encourage the use of more advanced market entry modes, government agencies like Austrade and the Department of Commerce and Trade must ensure that the following data is easily accessible to them:

- Characteristics of overseas markets including business opportunities, government exchange rate policy, labour skills, infrastructure, degrees of sophistication of distribution, and the regulatory information.
- Information about key players in the relevant industries.
- Information about setting up operations in overseas markets.
- Up-to-date overseas industry profiles.
- Up-to-date country profiles.

A study commissioned by the Department of Foreign Affairs and Trade (1995) has found that although there is no shortage of database or publications on information about export markets, they are often too detailed, expensive and not suited to the needs of SMEs. Therefore there is a need to tailor such information to suit SMEs which often do not have the time and resources to sift through such a plethora of data.

To encourage SMEs to pursue market entry modes that require relatively more resources commitment, there is a need to facilitate easier access to finance. One of the major factors impeding the international activity of Australian SMEs has found to be difficulty in accessing finance (DFAT 1995). As it is often an onerous task in persuading bankers and financial advisers to be flexible in meeting the financial requirements of internationalised SMEs, the Government must take the initiative in establishing funding for such firms. Government action might also include attempts to promote regionalism along the lines of the Government of Singapore. The focus of such attention might be upon the following:

- Ways to remove obstacles in the way of overseas enterprise.
- Study the tax incentives that could be extended.
- What the government could do to facilitate, partner, and help finance firms to expand overseas.

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