Exploring the Internet and Internet Commerce Impact in the SME Internationalization: Evidence from Taiwan’s Market

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ABSTRACT

This paper examines internationalization processes in the context of the Internet economy and presents some exploratory insights. Firstly, the impact of Internet in internationalization of SMEs including: Internet provides marketing intelligence, global sales promotion and communications, and enhances the production efficiency. But Internet is a limited tool for SMEs that intend to penetrate foreign markets. And we can say that SMEs using the Internet as a sole vehicle to internationalize their activities will not be able to capitalize on much of the sales potential in foreign markets. The transparency of prices is a major aspect of the Internet that makes life difficult for SMEs. So, the Internet exposes SMEs to increased global competition in foreign markets. Secondly, the Internet doesn’t expose internationalizing SMEs to lower transaction cost in all our cases. Thirdly, the Internet’s influence on SMEs internationalization is limited by legal issues in foreign markets. Finally, the Internet is particularly appealing for SMEs, removing or reducing some of the traditional barriers they faced in doing business overseas, such as communications costs, long distances and market entry risks.

Keyword: Internet, Internet-commerce, internationalization, small and medium enterprise (SME)

INTRODUCTION

SMEs have played a very important part in Taiwan’s economic development; their strength has been the foundation for over 40 years of prosperity and growth. Many leading Taiwanese trading companies started out as SMEs, and these companies can be thought of as the forerunners in the internationalization of Taiwan’s SMEs. However, since 1986 there have been major changes in the macroeconomic environment in Taiwan. The appreciation of the NT Dollar destroyed the price advantage that Taiwan’s exports had previously enjoyed, wages rose, and the environmental protection and labor movements grew in strength. With production costs rising, Taiwanese products were no longer as competitive as those of Southeast Asian nations, mainland China and other Third World countries. Large numbers of Taiwanese SMEs moved their operations overseas to low-cost production destinations. This trend was not confined to manufacturing enterprises; trading companies also began to establish sourcing, purchasing and distribution facilities overseas as they adopted a transnational marketing model.

According to Parasuraman and Zinkhan (2002, p.287), ‘Internet technology has the potential to alter almost every aspect of business operations’. Developments like the Internet compel business researchers to revisit the adequacy of existing conceptualizations to accommodate its role. The sub-field of small and medium enterprise (SME) internationalization is no exception (Dana, Wright and Etemad, 2004).

The role of the Internet in enhancing the internationalization of SMEs is supported by lots of scholars, such as Poon & Jevons (1997); Rialp (2001); Knight & Liesch (2002), Etemad & Wright (2003), etc. They all argue that the commercialization of the Internet has created unpredictable opportunities for SMEs. The Internet will revolutionize the dynamics of international commerce and lead to more rapid internationalization of SMEs. SMEs can now access to the same capabilities as large companies, and are able to engage in international market that previously might have been unaffordable due to the huge amount of resources required. And some scholars think it would be also interesting to check on the extent that the Internet has helped SMEs from developing countries to internationalize. (Elie Chrysostome, Philip Rosson; 2004) So this paper will focus on the Internet uses and Internet commerce from the viewpoint of
developing country, especially in Taiwan.

As indicated, the specific type of firm behavior of interest to this paper is internationalization, the ‘process of increasing involvement in international operations’ (Welch and Luostarinen, 1988), with special reference to small and medium enterprises (SMEs). Drawing on this definition of internationalization, the influences of Internet on the internationalization of SMEs can be identified separately, especially in international marketing and international production. And the Internet commerce is defined as: “commercial activities associated with the Internet” (Bambury, 1998). This research focuses on the use of the Internet as an instrument for small and medium enterprises to expand their operations beyond their national borders. And mainly addresses the following research question: how does the use of the Internet and Internet-commerce influence the internationalization of SMEs in Taiwan? This research conduct within the framework of Taiwanese SMEs and based on the research problem, the following research questions are addressed in this study. 1) How do the Internet and Internet-commerce influence the internationalization of SMEs? 2) What is the impact of the Internet and Internet-commerce in the internationalization of SMEs in Taiwan? 3) Under what conditions do SMEs benefit from Internet usage or Internet-commerce applications?

This argument is explored here through the synthesis of relevant literature and the findings of an exploratory study, comprising case studies conducted among SMEs in a developing economy context. Some light is sought to be shed on the role of the Internet in the internationalization of SMEs through this paper, an issue that is vital both for practitioners and policy-makers seeking to understand how Internet technology can best be utilized to facilitate internationalization efforts.

LITERATURE REVIEW

Internationalization Process Models

The internationalization process is conceptualized as “the process of adapting firms’ operations (strategy, structure, resources, etc) to international environments” (Johansson, 2000). Internationalization theories attempt to explain why companies choose to operate beyond their domestic market and the strategies and structures they develop to do this (Coviello & MacAuley, 1999). Many theories have been advanced to explain the process of internationalization, such as the traditional marketing approach that focuses on the company’s core competences combined with opportunities in the foreign environment (Penrose, 1959), the cost-based view that suggests that the company must possess a “compensating advantage” in order to overcome the “cost of foreignness” (Hymer, 1976; Kindleberger, 1969), Vernon’s (1966) international product life cycle, Dunning’s (1977) eclectic theory, etc.

A useful starting point in the conceptualization of internationalization is Johanson and Vahlne’s (1977) Uppsala model of internationalization, which essentially posits those firms’ internationalization increases as its foreign market knowledge does, which has been confirmed as being crucial (Eriksson, Johanson, Majkgård and Sharma, 1997). This behavioral view derived from case studies of the of internationalization paths taken by a number of Swedish companies (Johanson & Wiedersheim-Paul, 1975, Johanson & Vahlne 1977). The stages theory posits companies as being either (1) a non-exporter, (2) an indirect exporter, having (3) overseas sales operations, or (4) overseas production units. Trade barrier reductions and global market growth have led to a quicker pace of company internationalization (OECD, 1998) than the stages theory would suggest. It has also led companies to follow paths that are at variance from the linear and predictable path of the stages theory. As a result, other approaches to internationalization have been widely discussed and examined.

Internet commerce for SMEs Internationalization

In some cases, the Internet will increase the pace of SME internationalization by eliminating or lessening the need for intermediaries (Quelch and Klein, 1996). Some of these proposed effects of the Internet on the pace of the SMEs internationalization have been confirmed in a study by Lituchy and Rail (2000). Lituchy and Rail (2000) stated that the use of a web site propels SMEs into the internationalization process. And much has been expected of the Internet in international business, particularly for SMEs. Unfortunately, the advantages conferred by Internet seldom meet the high expectations (Coltman, Devinney, Latukefu and Midgley, 2001). Relatively few foreign markets can be penetrated by
SMEs using the Internet alone (Petersen, Welch and Liesch, 2002; Lituchy and Rail, 2000).

The Internet does not only help SMEs to begin to internationalize but in helping to maintain a strong position in foreign markets through such activities as marketing intelligence, global sales promotion and inter-firm R&D (Hamill, 1997). In fact, because it is a gateway to foreign markets, the Internet enables SMEs to become international whether it was planned or not (Lituchy and Rail, 2000). Table 1 presents a conceptual framework for identifying strategic uses of the Internet in the context of SMEs’ internationalization. Three main applications are identified namely, network communications, market intelligence, and sales promotion. Intended targets include all of the actors in the company’s network including foreign customers, agents, distributors, partners, governments, R&D institutions etc. Prasad, Ramamurthy and Naidu’s (2001) study of American manufacturing firms involved in exporting suggests that firms' integration of Internet technology with their marketing activities has a positive impact on export performance when marketing orientation is leveraged. Kim (2003) found that internationalizing Internet firms in the US sometimes did follow an incremental approach in entering foreign markets, while Morgan-Thomas and Bridgewater’s (2004) study of British exporters suggests that effective usage of even basic Web sites could lead to significantly higher international revenues.

Table 1  Internet Applications in SME internationalization

<table>
<thead>
<tr>
<th>Communications</th>
<th>Tools: e-mail, Usenet, Listserv, voice mail, IRC, video conferencing, MUDS, etc</th>
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<tbody>
<tr>
<td>Target:</td>
<td>customers, suppliers, agents, distributors, partners, research centers, governments</td>
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<tr>
<th>Market Intelligence</th>
<th>Tools: WWW, information search and retrieval software-Netscape, Microsoft, Gopher, Archie, WAIS, Veronica, etc</th>
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<tr>
<td>Target:</td>
<td>country and market research reports, industry specific reports, trade contacts, agents and distributors, trade leads</td>
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<thead>
<tr>
<th>Marketing and sales promotion</th>
<th>Tools: World Wide Web Site</th>
</tr>
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<tbody>
<tr>
<td>Target:</td>
<td>Global customers (actual and potential)</td>
</tr>
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</table>

Source: Hamill and Gregory, “Internet Marketing in the internationalization of UK”

Global production network

Multinational corporations (MNCs) have been around for a long time (e.g. Wilkins, 1970). Recently, their international production has focused on the penetration of protected markets through tariff-hopping investments, and on the use of assets developed at home to exploit international factor cost differentials, primarily for labor (e.g. Dunning, 1981). This has given rise to a peculiar pattern of international production: offshore production sites in low-cost locations are linked through triangular trade with the major markets in North America and Europe (e.g. Dicken, 1992). A progressive liberalization and deregulation of international trade and investment, and the rapid development and diffusion of information and communication technology (IT) have fundamentally changed the global competitive dynamics. GPN are a major innovation in the organization of international business. These networks combine concentrated dispersion of the value chain across the boundaries of the firm and national borders, with a parallel process of integrating hierarchical layers of network participants.

Internet and network relationship

In the context of SMEs, network relationships are also known to influence, and often accelerate their internationalization, resulting in a growing interest in this phenomenon among scholars (Coviello and Munro, 1997;
Chetty and Holm, 2000). Prashantham and Berry (2004) is argued that the Internet offers applications that facilitate network relationships, enabling firms to interact more widely and intimately with other actors, including customers, suppliers and collaborators. The Internet potentially lowers the cost of accessing and leveraging network relationships, by facilitating the enhancement of firms’ visibility, efficiency and intimacy, with respect to their network relationships (Prashantham and Berry, 2004). The Internet’s ease of use, universal standards and remote electronic access result in tools of communication and information-sharing (Morgan-Thomas and Bridgewater, 2004), enhancing visibility; collaboration and commerce (Tiessen, Wright and Turner, 2001), enhancing efficiency; and communities and privileged-access networks (Tapscott, 1999), enhancing intimacy.

The Internet provides SMEs with good opportunities to establish strategic alliances (Soliman and Janz, 2003). It stimulates collaboration between organizations (Aalst, 1999), and this is particularly true for SMEs that wish to internationalize.

**Internet and transaction cost**

It appears that the Internet can speed firm internationalization, particularly through reducing the costs incurred by SMEs (Petersen, Welch and Liesch, 2002). The internet provides SMEs with considerable information that helps to significantly reduce the uncertainties of foreign markets, even though it does not eliminate risk (Petersen, Welch and Liesch, 2002). E-business provides transaction speed, access to global markets, and mass customization (Littman, 2000). B2B allows the user to see the parts and products online, reach new customers, and provide better customer service. Through the use of the Internet, transaction costs and be dramatically reduced. The Internet allows for fewer data entry errors, creating time-savings and lower labor cost. Internal resources are reassigned and certain tasks are outsourced. Electronic procurement can cut purchase order costs to a third of that of conventional purchase orders (Martin, 1999).

**Internet and Entry barriers**

Hamill summarized in 1997 that Internet could, definitely, be a very powerful tool to assist SMEs in overcoming the main barriers experienced, resulting in more rapid internationalization. This is shown in following Table 2 with the main advantages, which SMEs can derive from an effective Internet strategy, and the way in which these can help to overcome the internationalization obstacles experienced. Thus, the use of the Internet for market intelligence and to support international networking can lead to a more positive, geocentric orientation towards the strategic importance of international markets. Internet can overcome many of the operational barriers relating to paperwork and export documentation. The establishment and proper marketing of a Web homepage can be used to overcome the product suitability/country market selection decision allowing SMEs to develop global market niche strategies rather than country oriented strategies.

**METHODLOGY**

The research methodology comprises case-studies (Yin, 1994) of eight SMEs. In this study, we select sample companies in different industries randomly, based on the potential respondents’ willingness and experts’ suggestions. Accordingly, the criteria for the sample selection in this study are: 1) Small and medium-sized enterprises - by Taiwan Small and Medium Enterprise Administration ‘s definition, i.e. employees less than 250, and the capital under 80 millions. 2) Already involved in international business activities. 3) Independent ownership – not a subsidiary of a large-scale company. 4) Having own website on the Internet. We utilize various industry and company web sits and general data sources, and complemented that data gathering with personal interviews at all companies to clarify company intentions and activities. The focus of this paper is exploratory and provides the important proposition, especially in a developing economy contest, and the findings are presented in this paper.
Table 2  Internet Application to overcoming the barriers to SMEs’ Internationalization

<table>
<thead>
<tr>
<th>Barriers to SME’s internationalization</th>
<th>Internet applications/advantages</th>
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<tr>
<td>Psychological</td>
<td>Increase in international awareness, confidence and commitment through access to global information sources; participation in global network communities; enquiries and feedback to WWW site from potential global customers.</td>
</tr>
<tr>
<td>Operational</td>
<td>Simplified export documentation through electronic data transfers; electronic payments; online export assistance, etc.</td>
</tr>
<tr>
<td>Organizational</td>
<td>Access to low cost export market research resources; improved knowledge of international markets and culture; reduced dependence on traditional agents and distributors through direct marketing; establishment of virtual network of partners</td>
</tr>
<tr>
<td>Product/market</td>
<td>Country/market selection decision made easier by online export market research; consumer/market orientation through customer, agent, etc. feedback and comment; costs savings through electronic market research, communications cost savings improving the profitability of exporting; adoption of global niche rather than country centered strategies</td>
</tr>
</tbody>
</table>

Source, Hamill, “The Internet and international marketing”, 1997

CASES AND BRIEFINGS

(1) YFC-BonEagle Inc. (http://www.cables.com.tw)

YFC-BonEagle Electric Co., Ltd. began its operations in 1983 and has been proud of supplying products worldwide. The company operates from its headquarters in Taiwan with two manufacturing facilities in Dongguan and one branch office in Shanghai, China. Their main products are cables, 3C plugs, patch cords and jacks, and optical device. About 75% of the company’s products are distributed overseas, which includes North America and Europe. Its main customers include famous companies like IBM and ALCATEL. Regarding company’s computerization, the company has set up its own website and the EDI system to manage the business, and to share the information of its suppliers, such as Formosa chemicals& Fiber Corporation, etc. The company also uses e-mail to communicate with customers, and provides intranet for staff’s communication.

(2) Kingcore Electronics Inc. (http://www.kingcore.com.tw)

Kingcore has begun operation since 1986, with its headquarters in Taiwan and factory in Su-Zho, Jan Hsu Province, Shanghai, China. Their main products are cores for electronic products. About 42% of the company’s products are distributed overseas, including Asia, Australia, North America and Europe. Their main customers include famous companies such as Acer, Asus, Inventec, etc. And the company penetrates South-East Asia with shared sales channel of its strategic partners. The company is also handling a lot of OEM and ODM orders for Japanese customers. In company’s computerization, the company has its own website and sets up the EDI system to manage the business, and uses e-mail to communicate with customers, and provides intranet for staff’s communication.

(3) Flytech Co. (http://www.flytech.com.tw/)

Since its foundation in 1984, Flytech has been dedicating in designing and manufacturing Book PCs, Net PCs, and POS PCs for over two decades. In year 2000, Flytech re-located headquarters in Hsi-Chih, Taipei County, Taiwan, expanding its capacity to provide highest quality and service. As global marketing, Flytech has established branch offices in Hong Kong, Germany, Japan, USA, and China. Long-term cooperative distributors and agents around the world also provide its customers the fastest and most direct supports through close-by and easy access channels. About 30% of the company’s products are distributed overseas. In company’s computerization, the company has its own website and sets up the MIS system to manage the business, and uses e-mail to communicate with customers.


Fashionow was founded in 1996 with 40 years of rich experience in the music industry. In 2000, Fashionow transformed into an online music service provider and began to offer online music and entertainment services. By means of innovative R&D, Fashionow has spearheaded its first innovative product “KURO” to be come the most popular music search and download application in both Taiwan and China. Fashionow is not only a successful digital
entertainment service provider, but also became a pre-stock company in 2004, with its rapid revenue growth and profits. Fashionow reached 500,000 subscribers in Taiwan and 300,000 subscribers in Mainland China, with total annual revenue over USD$10 million. About 15% of the company’s products are distributed overseas. KURO is a powerful music downloading browser based on cutting edge P2P technology. It has gained a prominent role in the Chinese music, dominating the downloading and sharing field, with over 40,000 music fans online sharing their rich resources.

(5) Tung Tzu Industrial Co. (http://www.babyace.com.tw)

The company was established in 1981, and now is becoming a professional toy’s manufacturer and exporter in Taiwan. The company’s main products are baby walker, stroller, high chair, bath tub, bath chair, potty and safety gate, etc. In addition, Tung Tzu has also developed many baby products to match the marketing demand and won a good reputation worldwide. The company handles a lot of OEM & ODM orders for overseas customers including famous brands such as Disney, Hello Kitty, etc. The company sets up its overseas production factory in Shanghai, China during 1992. Tung Tzu develops its own branded name BabyAce to sell toys to Japan, South Asia, Europe, and Latin America; which are primary markets representing for over 95% of sales. In company’s computerization, the company has own website and sets up the ERP system to manage the business, and communicates via e-mail with its customers.


Texma is an international manufacturer of women’s woven wear. It manufactures all women’s blouse, pants, skirts, dress, children’s wear, and sleepwear. Texma’s main clients include well known companies such as Gap, JC Penny, Sears, Express Limited, Zara and Polo Ralph Lauren; spreading across the United States, Canada, Europe, and Japan. Their strategy is to concentrate on a smaller number of clients, which enables Texma to provide more thorough services with its flexing capacity and resources to meet customers’ needs. The company set six overseas production factories in Philippines, Indonesia, Vietnam, Cambodia and Mainland China. Texma operates triangle trade, manufacturing in overseas factory, selling to Europe and operating in Taiwan. Europe is currently responsible for approximately 20% of sales, with the rest all coming from the US. In company’s computerization, the company has its own website and uses the package software to improve the production process, and communicates via e-mail with customers.

(7) Ji Chyuan Enterprise Co. (http://jichyuan.myweb.hinet.net/)

Ji Chyuan was founded in 1978. The company focuses on producing traditional auto-parts, and it is located in Tao Yuan County, Taiwan. The main products of Ji Chyuan are: power steering hose, assay tank, stamping parts, tube-water bypass, oil strainer, partition bar, pedal assay brake, accelerator, and clutch. Currently, Ji Chyuan has 168 employees and they created NT 408 million turnovers in 2004. The company invests three manufacturing factories in Fujian, Sichuan, Kwangsi province, China. Ji Chyuan has technological cooperation with Preferred Technical Group (U.K.) and some other Japanese companies. The policy of Ji Chyuan is clear and consistent since it was founded by focusing on the quality management in order to satisfy their customers. The company’s main customers are Ford Lio Ho; Yulon Nissan, and Chinese Motor Company. About 42% of the company’s products are distributed overseas. In company’s computerization, the company has its own website and sets up the ERP system to manage the business, and uses e-mail to communicate with customers.


Raytec Electronic Company began operation in 1991 with the goal of providing innovative solutions for cable assemblies as one of the international new ventures (INV). The company operates from its headquarters in Taiwan with five manufacturing facilities in Dongguan and Shanghai, China. Their main products are audio/video cable, computer cable, USB cable, Cat5e/6 cable, IEEE1394 cable, telephone cable, connector/adapter for audio and video. When entering the Mainland China, it decided to use joint venture with Taiwanese local firm for the reason of reducing risk. The headquarter are in charge of taking orders, financial management and product testing, while the subsidiaries in mainland China are in charge of producing and distributing the products to both domestic and overseas market. As for now, 90% of the company’s products are distributed overseas which includes Asia, Australia, North America and Europe. Its main customers include famous companies like ATI, Fujitsu, Sharp, SONY, Compaq and Xirlink. In company’s computerization, the company has its own website and sets up the ERP system to manage the business, and communicates via e-mail with customers.
FINDINGS AND ANALYSES

The Internet and Internet commerce influence the internationalization of SMEs

1. International Marketing benefits and problems

   Table 3 lists all the characteristics of case company’s findings. We can find the Internet commerce tools in SME internationalization and their internationalization stage. Further, we can find in our cases, the Internet provides such activities the same as marketing intelligence, global sales promotion and communications (Hamill, 1997). All our case firms involved in exporting suggests that firms’ integration of Internet technology with their marketing activities has a positive impact on export performance when marketing orientation is leveraged. And they also agree that effective usage of even basic Web sites could lead to significantly higher international revenues.

   From case firm’s interview, we can find the Internet has certainly changed many business practices and provides opportunities to companies, particularly SMEs for whom international business looked more of a dream than a reality. Indeed, internationalizing SMEs can benefit from low communications costs, real time communication around the world, simultaneous exposure to many foreign markets, and e-commerce. But these advantages generally hide many problems related to doing international business through the Internet. Except for standardized products or commodities, the Internet has not been able to replace the person-to-person contact generally required to build the necessary trust for successful international transactions. For many products the Internet cannot replace physical distribution channels. Moreover the Internet exposes SMEs to global and greater competition, particularly regarding price. For instance, among SMEs selling books, music and software, the only ones that will stay in business while competing on price, are those that can achieve high economies of scale (Wilson and Abel, 2002). The Internet raises many problems of security that make consumers overcautious and seriously limits potential. Contrary to the wide held view that the Internet will allow SMEs to sell anywhere in the world, as a tool of international business, the Internet offers the greatest potential in the triad of North America, Europe and developed Asia. Most developing countries do not have the required Internet technology to be markets or suppliers at this time.

   Today, many SMEs operate in dual systems. They participate in traditional day-to-day market operations, relying on conventional business practices such as the use of a sales force, methods of distribution, and promotion. Simultaneously, by placing web site on the Internet, many SMEs are automatically drawn into the new worked of international commerce which enables them to market their products and services globally rather than locally.

   Beside, the use of the Internet by companies involved in international trade raises a wide range of legal questions for which there are few answers at present. Relevant questions include: How can the owner of an Internet home page take steps to ensure that he/she will not have to defend a lawsuit in a foreign court? (Mykytyn, 2002) Should the company have to comply taxes (income tax, consumption tax, value added tax, etc.) in the countries of its customers? The vast majority of jurisdictions have not yet decided that clicking on “I agree” constitutes an enforceable agreement, although legal opinion seems to be trending in that direction (Weeks and Smith-Frisone, 1999). Other strategies that internationalizing SMEs can adopt are to either forego international transactions through Internet or to limit them to foreign markets which legal systems are very similar to those in their own country (Newman, 2003).

2. International Production influences

   Most of our case firm reduce communication cost and enhance production efficiency, such as Tung Tzu Co. and Raytec Electronic Co., YFC-BonEagle Inc., Kingcore electronics Inc., Ji Chyuan Enterprise Co., and so on. They use the Internet commerce to reduce the across boundaries communication cost and by Internet commerce or supply chain management or ERP system to enhance production efficiency. An the case company Ji Chyuan Enterprise stated, Global Production Network (GPN) typically provide the local suppliers with encoded knowledge, such as machinery that embodies new knowledge, blueprints, production and quality control manuals, product and service specifications, and training handouts. Internet technology assists the suppliers in building capabilities that are necessary to produce products and services with the expected quality and price.
3. Influence on organization structure

These networks combine concentrated dispersion of the value chain across the boundaries of the firm and national borders, with a parallel process of integrating hierarchical layers of network participants. From our case firms, we can find the Tung Tzu Co. and Raytec Electronic Co. use the Internet commerce to enhance the GPN activities which fundamentally changed their global competitiveness.

The Internet facilitates exchange relationships among parties distributed in time and space. It also helps in the selection of local and foreign partners because the Internet provides SMEs with relevant and timely information. This is particularly important when SMEs plan to internationalize through business networks rather than dealing directly with foreign customers, as in the case companies of Ji Chyuan Enterprise.

In the case, the Internet helps to accelerate the process by saving the SME’s from high costs and by keeping the SME closed person-to-person contacts with its partner. It is evident that SMEs can easily and quickly access to the information on their potential partners by visiting their websites and establishing contacts via costless e-mail. They can also have access through the Internet to information regarding their past experiences in interfirm relationships and the type of network links for further consideration.

It is equally important for finding downstream dealers when internationalization success is mainly dependent on selecting the right foreign market and local partner, and the quality of information that guides this process is critical. Most SMEs compete with niche products and the markets for these products necessitate multiple market entries. The Internet has moved SMEs into world market, which can help them build the critical mass necessary for success.

Other influence in the internationalization of SMEs

1. Transaction cost

Transaction costs include the costs of searching for sellers and buyers; collecting information on products; negotiating, writing, monitoring, and enforcing contracts and the costs of transportation associated with buying and selling. From most of our cases, the Internet can reduce these costs. It reduces search costs because information on buyers, sellers, and products can be obtained more easily through the web. For digital products like software, music, and video, transportation costs are also greatly reduced since they can be shipped over the Internet.

One of the most important stages in creating interfirm networks is to search for information on potential partners. This stage of internationalization is costly for SMEs since their limited resources can not afford them high budget searching for foreign partners. With the Internet these costs have been reduced tremendously, as shown in the Raytec Electronic and Ji Chyuan Enterprise.

For case company Texma International Co., there are a wide range of Internet costs that internationalizing SMEs have to invest, ranging from website creation (including hardware and software), maintenance and updating, website translation and cultural adjustments, and staffing specialized personnel. Continuous update and improvement on the application of Internet is necessary to keep the interests of customers and to maintain a competitive edge, which incurs further cost. As a result, the Internet cost savings are not assured for SMEs, when investments are also needed on a continuing basis.

2. Internationalization obstacles

From the case study, we can find a major obstacle that can limit the usefulness of the Internet concerns the language and cultural content employed in the website, the quality of the telecommunication infrastructures in various markets, access to and skill with computer systems.

The Internet is particularly appealing for SMEs, removing or reducing some of the traditional barriers they faced in doing business overseas, such as communications costs, long distances and market entry risks. The Internet has leveled the playing field between SMEs and global companies, giving the former a presence in all markets and ready contact with actual and potential customers, suppliers and partners abroad. And this quickening of the pace of internationalization and reduced time span to foreign sales is interesting and owes much to the reduced barriers to trade and greater openness, as well as the new opportunities and greater customer access afforded by the Internet.

And from above findings lead our two propositions:
Proposition 1: For Taiwanese SMEs in different internalization stage will use alternative Internet commerce tools.
Proposition 2: The higher involved internationalization’s company will use higher degree Internet commerce.

CONCLUSIONS AND SUGGESTIONS

Conclusions
From this paper, we can get some conclusion as below:
Firstly, the impact of Internet in internationalization of SMEs including: Internet provides marketing intelligence, global sales promotion and communications, and enhances the production efficiency. But Internet is a limited tool for SMEs that intend to penetrate foreign markets. And we can say that SMEs using the Internet as a sole vehicle to internationalize their activities will not be able to capitalize on much of the sales potential in foreign markets. The transparency of prices is a major aspect of the Internet that makes life difficult for SMEs. So, the Internet exposes SMEs to increased global competition in foreign markets. Secondly, the Internet doesn’t expose internationalizing SMEs to lower transaction cost in all our cases. Thirdly, the Internet’s influence on SMEs internationalization is limited by legal issues in foreign markets. Finally, the Internet is particularly appealing for SMEs, removing or reducing some of the traditional barriers they faced in doing business overseas, such as communications costs, long distances and market entry risks.

And the Internet has leveled the playing field between SMEs and global companies, giving the former a presence in all markets and ready contact with actual and potential customers, suppliers and partners abroad. This is really important since internationalization success is mainly dependent on selection of the right foreign market and local partner, and the quality of information that guides this process is critical. Most SMEs compete with niche products and the markets for these products necessitate multiple market entries. The Internet has made it more feasible for SMEs to do this rapidly so as to build the critical mass necessary for success.

But there still have some problems when SMEs face to Internet technology. First, much of the information available via Internet and especially on web sites constitutes explicit knowledge. Hence, the Internet does not really help SMEs to penetrate the foreign markets. It does not connect the SMEs intending to internationalize to all the markets that could be profitable for them throughout the world. Secondly, non-exporting companies cannot expect to become exporters overnight by virtue of developing and maintaining a web site. Developing an export-specific infrastructure within the company is fairly involved and costly. Furthermore, export marketing involves many macro and micro planning and management considerations including meeting local product standards, target market pricing and competitive factors, export currency and payment issues, customer support and service requirements, legal and regulatory considerations, and so on. None of these issues will be addressed by virtue of having a presence on the Internet. Thirdly, inasmuch as industrial demand is derived from consumer demand, regardless of the penetration of the Internet in exporting or other commerce, the level of consumer spending is not affected. This indicates that in the long-run the use of the WWW or other Internet related applications cannot be expected to increase revenue for all companies, though short-run benefits might occur for some companies.

Suggestions
We would like to give some suggestions based on the previous analyses and conclusions. These suggestions apply to three respects - the SMEs, existing literature and future study.

1. Managerial Implications
This study might help manufacturing SMEs to reexamine the way they use of the Internet and the website, increase the awareness of the importance of the Internet integration into their business, and get some useful information on how other SMEs conduct their Internet business, as well get some concentrative literature on Internet applying to SMEs’ international business, which might highlight their future development.

2. Suggestions for Future Research
We consider this study is only an explorative one on how the SMEs use the Internet when going internationalization. Research comparing the internationalization paths and strategies of new and old economy companies should also yield useful knowledge. This is bound to provide fertile ground for researchers for some time as new models emerge. And the proposition that Internet commerce and international growth will be strongly related is one that is well worth testing in future research. Furthermore, the value of local network relationships could be more accessed deliberately.

REFERENCES

Aalst, Wil Van Der (1999), Loosely coupled interorganizational workflows: modeling and analyzing workflows crossing organizational boundaries, Information and Management, 37, 67-75.


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