INDUSTRY ENVIRONMENT: INFLUENCE ON PERFORMANCE OF SMALL-MEDIUM SIZED ENTERPRISE IN ASIA-PACIFIC MARKETS

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ABSTRACT

The purpose of this paper is to extend the business performance stream by examining the relationship between industry environment and business performance. This paper will assess the significance of the regulatory environment, in particular, on firm performance by examining a number of markets in the Asia-Pacific region to illustrate similarities and differences and suggest how industry structure in these markets might influence exporting firm performance. The conclusion will examine managerial implications and provide some future research directions.

INTRODUCTION

Over the last two decades, Australia has provided firms with a consistently stable political and legal industry environment in which to participate but this is in contrast to many other economies in the Asia-Pacific Rim. Has this contributed to stable levels of investment and export activity in Australia in contrast to markets such as Thailand, Vietnam, Malaysia and South Korea? The purpose of this paper is to extend the business performance stream by examining the relationship between industry environment and business performance. Aldrich and Pfeffer (1976) suggested that managerial option can be constrained by some business environments and that managers must perceive the nature and forces operating in the environment. This argument suggests that firms will do better in an attractive business environment (Stimpert and Duhaime, 1997; Mohamad and Wheeler, 1996; Yeoh, 1996; Robinson, 1998; Jegathesan, 1996). The 'environment' is comprised of a number of factors that make up an industry environment. Factors that would need to be considered include, for example, regulatory environment (political, legal and economic); customer environment; competitor environment and the technological environment (Sundqvist, *et al,* 2000).

This paper will evaluate the significance of the regulatory environment, in particular, on firm performance by examining a number of markets in the Asia-Pacific region to illustrate similarities and differences and suggest how industry structure in these markets might influence exporting firm performance. The conclusion will examine managerial implications and provide some future research directions.

LITERATURE REVIEW

Industry Environment

Hassan and Sulaiman (1996) defined and operationalised the external environment as comprising political uncertainty, technological uncertainty, uncertainty of resources, economic uncertainty, level of competition, competition in price, competition in distribution, competition in promotion and certainty of the internal environment. Jegathesan (1996) suggested ten checkpoints for governments to monitor and provide if they wanted to develop an attractive exported-oriented environment. The points are very similar to the variables Hassan and Sulaiman (1996) used to operationalize the same construct and Sundqvist, *et al*, (2000) which selected four environmental measures that were adapted and developed from Cadogan, *et al*, (1998), as listed above in the introduction.

Firms have a choice as to where they will invest. A more attractive and favourable business environment is likely to attract the export-oriented investor (Jegathesan, 1996). This argument calls for governments to play the character of provider and initiator of a safe and favourable regulatory environment that provides suitable returns on investment (Jegathesan, 1996). For example, government initiatives with a 'strong interventionist' approach and restructuring have been seen as significant structural developments for assisting an export-led recovery in Singapore (Yeoh, 1996). "Strong intervention" or less protection could be used as a government strategy. For example, reducing protectionist barriers were held to be significant in determining firm performance of Malaysian export firms in the metal and wood manufacturing sectors (Mohamad and Wheeler, 1996).

In addition, the influence of industry environment was considered most significant for the stage of the life cycle of the industry on firm performance but not significant for other industry structural measures such as industry concentration, entry barriers and product differentiation (Robinson (1998). Some studies have focused on other factors as significant influences on firm performance. For example, firm size was considered a significant influence on firm performance (Mohamad and Wheeler, 1996; Fiegenbaum and Karnani, 1991; Macmillan, McCaffery and Van Wijk, 1982; Katz, 1988) but not others (Pelham, 1999; Hitt and Ireland, 1993). However, these studies are not inconsistent with the view that the industry regulatory environment may have considerable influence on firm performance.

In India, use of Information Technology (IT) by SMEs and adopting an international orientation were more significant influences on firm performance (Lal, 1996) than industry structure. However, this does not imply that the industry environment is not significant. This suggests that it may be even more significant for the firm to understand the industry environment of high tech markets. Other studies support the view that the adoption of greater levels of internationalisation contributed to improved levels of performance (Mohamad and Wheeler, 1996; Oviatt and McDougall, 1994; Renforth, 1998; Freeman, 1999; Sundqvist, *et al,* 2000)). Sundqvist, *et al,* (2000) found that higher export market orientation was needed for firms in an operating environment that could be described as fairly turbulent in terms of technology and export customer dynamism. Firms in this environment were found to have a strong co-ordinating mechanism, and their level of export intelligence generation, dissemination and responsiveness was very high. A typical industry in this cluster one was electronics.

Again, these studies are not inconsistent with the view that industry structure is a significant influence on firm performance. Consistent with this view is that the firm does not exist in a static environment. The external environment varies in terms of its industry structure in a dynamic manner. The industry environment will also differ from one market to the next (Sundqvist, *et al,* 2000). This implies that the firm needs to evaluate the dynamics of the industry and adapt and develop market strategies to meet these changes. This will require constant monitoring and control to effectively implement market strategies (Cravens, 2000; Sundqvist, *et al,* 2000). Different industry environments will require different decisions about strategic choice and implementation (Cravens, 2000). Overall, an international orientation, innovative products or services marketed through a strong network and a tightly managed organisation focusing on international sales growth was also considered significant influences on firm performance in Oviatt and McDougall (1994).

Sundqvist, *et al*, (2000) found that export market orientation was not suitable for all industry environments as the performance benefits accrued from developing high levels of market orientation were out weighed by associated costs. The study found that the export environment moderated the relationship between the export market orientation and export performance. Absolute sales growth was used as a measure of firm performance concerned with the moderating roles of the four industry environments:

- competitor
- consumer
- technological and
- regulatory

The fourth moderator of the export orientation and the export sales growth relationship was the regulatory environment. It was found that co-ordinated export marketing activities (high market orientation) are most significant under conditions in the firm's export markets, specifically the regulatory environment. Regulations have a significant impact on export operations when export competition is intense. These markets are typically found where technology is a minor influence and customer requirements are stable. A market orientation requirement is seen as necessary and industries where this was found to be especially relevant were food, drink and tobacco and forestry (Sundqvist, *et al,* 2000).

In addition, markets characterised by very turbulent changes, fierce competition and a high impact of regulations were typically found in the chemical industry. In this highly turbulent environment, the impact of the regulatory environment is highly significant and the role of export market orientation appears to be very significant, since levels of export intelligence generation, dissemination, responsiveness and export co-ordinating are high (Sundqvist, *et al*, 2000). This implies that the firm can still operate effectively in a very difficult industry environment but to survive the firm will need to be significantly focused on one or more of the factors above and to monitor and evaluate their industry environment constantly. This is consistent with the view that the industry environment is a significant influence on strategic decision-making and performance by the firm (Cravens, 2000).

Pelham (1999) specifically addressed this question: To what extent does the industry environment have an impact on small manufacturing business performance relative to internal factors? Industry environment was identified as influential though less so than the internal environment. It is significant to note that this study focused on the manufacturing sector. In high-tech sectors, Sundqvist, *et al*, (2000) found that this was quite a different environment for firms to work in and a significant influence on firm performance. In applying the findings of Pelham (1999), to other, more competitive and regulated environments, the influence of the external regulatory environment is considered a significant influence on firm performance, a view supported by Robinson (1998), Lal (1996) and Sundqvist, *et al,* (2000).

Some studies suggested that general environmental dimensions such as industry stagnation or dynamism affect small firm performance (Peterson, 1985; Miller and Toulouse, 1986). Competitive environment characteristics are also considered as significant influences on successful implementation of generic strategies (Phillips, Chang and Buzzell, 1983; Hassan and Sulaiman, 1996; Sundqvist, *et al,* 2000). Sundqvist, *et al,* (2000) found this to be an significant influence on exporting firms for export growth and sales in certain industries, with particular environmental characteristics, such as the electronics industry characterised by high turbulence in terms of technology and export customer dynamism. Porter (1980) discussed the generic strategies that would be appropriate for small manufacturing firms to adopt in certain industry conditions, indicating that industry structure can affect performance.

Schmalensee (1985) and Stimpert and Duhaime (1997) found that industry membership considerably influenced profitability but that market share and firm effects were negligible. Thus, the type of industry structure and environment can influence firm performance. Sundqvist, *et al,* (2000) found that an unfavourable regulatory environment had greatest impact in certain industries, in particular, food, drink and tobacco and forestry and that above average levels of export market orientation was significant influences on firm performance. This is especially so for industry environments that was highly regulated such as the chemical industries. The findings that the industry is an significant influence on firm performance in the Robinson (1998), Lal (1996) and Sundqvist, *et al,* (2000) studies is not inconsistent with the view that market orientation of the firm in combination with a particular industry environment is influential on firm performance as is suggested in the Pelham (1999) study. Sundqvist, *et al,* (2000) found that with a particular regulatory industry environment the influence on exporting firm performance was a significant influence such as the food, drink and tobacco and chemical industries. These studies are not irreconcilable. They are valid for the contexts that they cover and the industry types and firm sizes that they address.

What are needed in this area of research would be further studies that focus on the influence of regional differences of the regulatory environment. The Sundqvist, *et al,* (2000) study is based on Finnish SME firms. Cross-cultural, longitudinal studies on regional regulatory environments would be a welcome addition to this field. This is significant for a number of reasons. The creation of an environment conducive to investment is seen as significant for attracting the export-oriented investor (Jegathesan, 1996) and information on regional differences would have managerial implications for firms. Finally, a pleasing business environment is likely to draw investment to a market and enhance the market and firms participating in that market (Jegathesan, 1996). These markets that can provide more stable regulatory environments could offer firms potentially higher levels of return.

THE IMPACT OF REGIONAL DIFFERENCES OF THE REGULATORY ENVIRONMENT ON FIRM PERFORMANCE

Regions differ with regard to their industry environment and in particular the regulatory environment. Some governments have nurtured a regulatory industry environment, for example, by supportive trade policies for promoting internationalisation and providing many export initiatives for small exporting firms. It seems improbable that internal factors alone (Pelham, 1999; Lal, 1996; Hassan and Sulaiman, 1996; Mohamad and Wheeler, 1996) account for firm performance irrespective of the influence of the regulatory industry environment (Robinson, 1998; Stimpert and Duhaime, 1997). The influence of the industry environment and was found to be a significant influence of firm performance in Robinson (1998), Lal (1996) and Sunqvist, *et al*, (2000). There are several trends that have emerged in the regulatory industry environment of the Asia-Pacific Rim that may be significant influences on firm performance, especially for exporting SMEs. There is significant variation within the region in aspects such as stage of development, their types of industries, and stage of industry cycle. For example, the government has promoted a regulatory industry environment in Australia over the last two decades that has encouraged more international orientation (Australian Bureau of Statistics, 1997 Cat. No. 1321.0 and 81270.0). Firms have had to develop internal skills (market orientation and strategic orientation) to deal with a highly volatile financial region and global, high tech industries in the Asia-Pacific Rim. Better performance of Australian SMEs suggests they have been more able to 'play' effectively due to the increasingly competitive Australian business environment, which has encouraged more firms to internationalise through a supportive, regulatory environment (Australian Bureau of Statistics, 1997 Cat. No. 1321.0 and 81270.0).

Similarly, in Singapore, government regulatory intervention has encouraged firms to internationalise (Yeoh, 1996). In India, many SME manufacturers of electronic and electrical goods have become more internationally orientated and this has contributed to their enhanced performance (Lal, 1996; Sundqvist, *et al,* 2000). In Malaysia, the government's regulatory Industrial Master Plan (1985) has promoted a cost competitive environment and encouraged firms to export and internationalise other value-added activities (Mohamad and Wheeler, 1996). Perhaps the industry environment has influenced firm performance by providing the impetus, direct (government intervention) or indirect (globalisation forces) to internationalise to improve performance through sales in other markets and profitability long-term by securing competitive advantage via improved products and strategic location of value-added activities (Yip, 1992). This is consistent with the view that the industry regulatory environment and structures, which are positively supportive of a firm's attempts to internationalise, will result in enhanced firm performance (Sundqvist, *et al,* 2000). Perhaps the reason why Australian SMEs have maintained a consistent level of exports during the recent Asian financial crisis is due to a supportive regulatory industry environment and international orientation of SMEs?

The Australian government has encouraged a more competitive and global industry environment, domestically, over the last two decades, and has consistently provided an ongoing industry environment, which encourages firms to continue to compete internationally and develop skills to adapt to the changing industry environment. This promotes the development of firm based skills that can lead to enhance firm performance (Lal, 1996; Sundqvist, *et al,* 2000). This argument is consistent with the view that there are many factors that may support international orientation, and that this is likely to enhance small firm's performance in the long term in most industry types (Sundqvist, *et al,* 2000).

Pelham (1999) suggests that in addition to the impact of the environment other factors are equally effective such as adopting a market-oriented strategy, which is designed and implemented for small business. Sundqvist, *et al,* (2000) supports this view. Lal (1996) found an international orientation did enhance performance of SMEs but his study was restricted to the industrial sector and relied on the findings of 59 firms in India. Sundqvist, *et al,* (2000) found that the influence of the industry environment was moderated by the level of export market orientation of the small firm but that the influence of some industry environments was more influential on firm performance that others. While these different findings suggest there is no one answer as to the effect of the environment on business performance there is sufficient overlap in these studies to suggest that the industry environment and it particular the regulatory environment (Sundqvist, *et al,* 2000) is an significant influence on firm performance. Empirical research in this area is needed to provide further compelling and conclusive evidence, especially with regard to the relationship between the level of market orientation, the industry type and the industry regulatory environment on exporting firm performance.

Structure of the Australian Business

The impact of the regulatory environment on firm performance in the Asia-Pacific Rim warrants closer examination following the recent financial crisis. Has the regulatory environment, managed by governments in selected Asian markets influenced exporting firm performance? SMEs are increasingly active in international markets, especially in the Asia-Pacific rim and contributing to the region's economic growth and prosperity (Reynolds, 1997). A study, conducted by the Australian Bureau of Statistics (Australian Bureau of Statistics) from 1995 to 1998, produced a series of reports into the economic significance and key characteristics of Australia, which tracked a sample of approximately 5,600 firms for four years. Findings indicated that the value of exports made by medium sized firms (20 to 99 employees) was significant (Australian Bureau of Statistics, Cat. 8127.0). The industry sectors that displayed the highest level of small business involvement were firstly, service industries including property and business services (for example, communication services), retail trade and construction. Secondly, manufacturing industries including food and beverages, printing, publishing and recorded media, metal products and machinery and equipment were the next level of industries with the highest level of small business involvement (Australian Bureau of Statistics, Cat. 8127.0). Approximately 10 percent of Australian SMEs in this consensual study had of foreign ownership. Firms that were employing 500 or more had approximately 49.4 percent foreign ownership (Australian Bureau of Statistics, Cat. 8127.0).

SMEs were also increasing their exporting to markets within the Asia-Pacific Rim over the last decade (Australian Bureau of Statistics, Cat. 8127.0). For example, nearly 60 percent of Australian merchandise exports have been to East Asian countries, with total exports for 1997-98 growing by more than 8 percent, despite the Asian financial crisis (Australian Bureau of Statistics, Australian Industry Resources, 1998). This has involved exporters also diverting exports to alternative markets as well as taking competitive advantage of a regulatory environment that provided a depreciating Australian dollar which allowed high levels of export sales (Australian Bureau of Statistics, Australian Industry Resources, 1998). The significance of this level of trade within the Asia-Pacific Rim is that due to strong encouragement by the government (political and legal) SMEs are trading far more within the region with markets that display considerable levels of cultural diversity. SMEs are also not just relying on culturally similar but also often geographically distant markets, such as the UK and the US (Australian Bureau of Statistics, Cat. No. 5368.0) to spread the risk of exporting to more than one region.

Industry Structural Changes

Australian SMEs have performed well through the recent crisis, compared with their counterparts in countries, such as Indonesia, Thailand and the Philippines (The Economist, Sept. 11, 1999). A number of regulatory industry structural changes, such as diversification of exports; increasing internationalized of SME activities; privatization of major industries over the last two decades; and reduced protective barriers across the board have provided the context for this positive performance by Australian SMEs. For most of Australia's history commodities have dominated its economy and the tendency has been to think of the Australian markets as wool, grain or minerals. Rural goods, overall, make less and less contribution to export earnings by Australian SMEs 1999 (Australian Bureau of Statistics, Cat. No. 5368.0). However, Australian SMEs have certainly moved their focus away from non-value added rural goods over the last two decades.

In the past decade, a different sort of economy has been emerging in Australia, one increasingly service-oriented and high tech in nature and style (The Economist, Sept. 11, 1999). The nature of these structural changes is diverse. For example, the structural changes to the Australian Stock Exchange (ASX). Driving this evolution, and in turn being driven by it, is the most sophisticated financial markets in Asia (The Economist, Sept. 11, 1999). The Australian Stock Exchange (ASX) is by market capitalization, the biggest in Asia outside Japan. These factors provide a supportive regulatory environment. The regulatory environment in Australia by contrast with many Asian neighbours has been privatising utilities over the last decade, and insurance companies have de-mutualised. Blue-chip utilities and financial firms and not only mining and manufacturing firms are dominant players on the stock exchange. These financial structural changes have moved the Australian economy from commodity products to high tech services industries. This movement from commodity to high value adding has been reflected in a proliferation of SMEs. For example, the sale of wine via the internet by over twenty Australian SMEs, such as, Cellarmasters; the Australian Wine Society; Fine Winecellars and Vineyard Direct, (which have added online sales). Newcomers include Wine Planet and Wine Life, both 'start up', e-commerce retailers. They are forging ahead in line with the general e-commerce boom, as innovative online retail merchants find new ways to develop a traditional trade (Macrae, 1999). The post 1983 deregulated Australian financial market has evolved from one of the most volatile to one of the most stable financial markets in the Asia-Pacific region (Macrae, 1999).

In brief, Australian industries did not decline to the same extent as many Asian neighbours during the 1997-98 crisis (The Economist, Sept. 11, 1999). Nor did they achieve dramatic growth rates before the crisis, as did many other Asian markets. The Australia market has provided exporting firms with a more stable regulatory environment than others in the region, over the last decade (The Economist, Sept. 11, 1999). This can be attributed to a number of industry structural factors. One reason for the noticeable stability over the last decade is that Australia still tends to have weaker trade links with the region than other Asian neighbours (The Economist, Sept. 11, 1999). This is despite the increasing level of trade within the region by Australian SMEs. For example, apart from a few Asian companies listed on the ASX, the Australian stock market is mostly domestic in its nature and content (The Economist, Sept. 11, 1999). Other factors include the more diverse economic base. For example, Asia's economic turmoil two years ago affected New Zealand severely, while Australia with a more diverse economic base withstood the shock. While New Zealand went into a short recession in 1998, Australia's economy grew at 4.7 percent in 1999 (The Economist, Oct. 9, 1999). A boom in high tech service industry provided much growth and employment in Australia, over the last decade (The Economist, Sept. 11 and Oct. 9, 1999).

Industrial Structure Changes in Selected Asian Markets

Over the last two years, Australian SME behaviour in the Asia-Pacific Rim has seen economic performance levels that do not reflect the general level of recovery in other Asian markets. Australia recorded a 4.2 percent GDP annual growth figure in December 1999 (Australian Bureau of Statistics, 1999). This is well ahead of the annual growth rates of 1-2 percent in many Asian Pacific markets since 1997 (FEER, Nov. 18, 1999). The range of GDP levels in the Asia-Pacific Rim have varied dramatically, as seen in the chart above. The standard deviation was 0.03, which is considerable, and the mean was 3.18%, giving Australia an impressive position as a stable regulatory environment (political and economical) despite the fluctuations for particular markets in the region.

Table 1: GDP levels in the Asia-Pacific Rim

Market	GDP Level (1999)	Market	GDP Level (1999)
Australia	4.2%	New Zealand	2.3%
China	8.2%	Philippines	2.4%
Hong Kong	-1.0%	Singapore	4.0%
Japan	0.9%	South Korea	7.0%
India	5.8%	Taiwan	4.5%
Indonesia	-1.7%	Thailand	1.5%
Malaysia	3.0%		

Source: FEER, Nov.18, 1999.

A number of contributory factors are responsible for the apparent stability and steady growth in the Australian economy in the last two decades (Fitzroy, *et al,* 1998; Australian Bureau of Statistics, Cat. No. 81270 and 1321.0). For example, one factor is the regulatory environment. The federal government has moved towards greater levels of industry privatization and liberalization in the last two decades, such as exchange rate and banking; airline and telecommunications but it is still a highly regulated market (FEER, Nov. 18, 1999). In addition, trade barriers (tariffs) have been reduced across the board (except for clothing and footwear, and autos). The remaining two industries are slowly loosing all tariff protection that should be achieved by 2005 (FEER, 18 Nov, 1999). This has meant firms must compete without an elaborate scheme of subsidies and other forms of government protection often associated with many markets, both developed (for example, the US) and developing (for example, Thailand). Australia is not alone in the move towards less protection of home industries. China, Taiwan and Malaysia are also privatizing home industries, which will increase local competition and change exiting competitive industry structures (FEER, 18 Nov, 1999).

In brief, many factors, including a supportive regulatory environment have contributed to the stable growth of the Australian market over the last decade. These developments have not been seen generally in the regulatory environment of Asian markets, although China, Taiwan and Malaysia are clearly headed in this direction (FEER, 18 Nov, 1999). For example, the challenges facing Indonesia's new government as recovery gets underway are numerous, including the drawing up of the next budget, the country's sovereign debt, and their high level of non-performance loans. Regulatory environment problems of public governance such as an independent judiciary and bank recapitalisation, and private sector concerns such as corporate restructuring remain (Geib, 2000). Indonesia's democratic political revolution has significant economic and business implications. The crisis occurred principally on the financial level but it involves underlying questions of corporate governance, bank restructuring, and corporate restructuring as well as political stability and judicial independence of the regulatory environment.

The recovery in Indonesia will be led by international business and exports as in other Asian countries like Thailand and South Korea. The difference in the case of Indonesia is politics. The political system predominantly in regard to business and economics had become profoundly corrupt. Political and cultural risk factors remain dominant concerns. Prior to the fall of Suharto political intrusion in business and economics was constant and overwhelming. The new democratically elected government must rebuild public trust in the state that had been lost under the old regime. It must manage the process of decentralisation of power and avoid the risk of national disintegration. The new government must break with the past and provide path of the regulatory environment in order to provide continuity of policies and contracts pursued in the past (Geib, 2000).

In Thailand, high levels of non-performing loans cast doubt on the strength of recovery. Thailand's market-led financial restructuring effort has been slower to show results than the government plans in South Korea and Malaysia. The major factors underlying the financial crisis in Thailand in 1997 arose from prior changes in the world economic environment and speedy domestic capital account liberalisation. Changes in the external environment such as declining asset yields in the major industrial economies from the early 1990s, made Asian, including Thai markets an increasingly attractive investment opportunity (Auepiyachut and Harvie, 2000). In the regulatory environment, financial liberalisation policies undertaken in Thailand during the late 1980s and early 1990s were used to stimulate capital inflows, and to sustain economic growth. This occurred without a commensurate improvement in the institutional structure of domestic financial markets. The weak financial sector was concealed by unprecedented rapid economic growth. However, with the slow down in economic growth, especially in the export sector in 1996, together with increasing financial integration, the weakest in the financial markets became exposed (Auepiyachut and Harvie, 2000).

Many countries in the Asia-Pacific region have admired Taiwan's stable economic development and growth in the 1980s and 1990s. This growth is the direct result of a number of factors including economic, social and political stability of the regulatory environment (Ngui, 2000). The development of SMEs in their diverse networks, forms and capabilities and cultural adaptability, has formed one of the major foundations on which Taiwan has built a considerable economic future (www.apecsec.org.sg). Taiwan continues to be one of the world's major manufacturers of computers, motherboards, integrated circuits and computer peripherals (Ngui, 2000). The 1997 financial crisis highlighted the structural weaknesses such as under-regulation of the financial sector and weak corporate governance. These were major issues for the countries of Thailand, Indonesia, Philippines and South Korea, which were adversely affected by the crisis. For those less affected by the crisis such as Taiwan, it stimulated a critical examination of existing domestic business and financial strategies of the regulatory environment (Ngui, 2000). Taiwan's growth rate fell from 6.8% in 1997 to 4.8% in 1998 (Ngui, 2000). One view pointed to the weakness in Asian financial systems, which was considered to be the root of the crisis. These weaknesses were generated largely by the lack of incentives for effective risk management (Moreno, *et al,* 1998). It was suggested that the weaknesses of the financial sector were blanketed by rapid growth and accentuated by large capital inflows, partly encouraged by pegged exchange rates (Ngui, 2000). If, however, weaknesses in the financial sector were significant contributors to the crisis, reforms to the regulatory environment are indeed essential (Ngui, 2000).

In 1997, SMEs in Taiwan accounted for 97.8% of total business enterprises contributing 78.4% to the total workforce and 32.11% of the total sales volume (apecsec.org.sg/profiles/). Taiwan has an remarkable set of policies, programs and capital to assist SMEs. Almost 35 years of sustained support and assistance aided by the business culture of the Taiwanese has built strong networks and relationships both internally and externally to the extent that collectively, the SME sector could withstand the vicissitudes of the domestic and international markets (Ngui, 2000). The current development and growth of SMEs in Taiwan continues to be supported by an integrated set of SME policies, programs, structures and capital. Another major element in the strength of the Taiwanese economy and SMEs is the trade with the PR of China. The comparative advantage for Taiwanese SMEs is its proximity, cultural similarity, raw material and abundant labour in the Mainland China or PR China (Ngui, 2000). Long-term, Taiwan's strategies to promote sustainable economic growth have focused on strengthening the legal framework and improving government efficiency as well as remaining competitive in the face of globalisation of the economy, namely the regulatory environment (Ngui, 2000).

Overall, the economic situation in the Asia-Pacific rim over the twenty years has fluctuated widely. By contrast, the approach by many Australian SMEs was to internationalise gradually; and to adjust their business skills over the last two decades as a result of government industry restructuring of the regulatory environment across a range of factors that has forced local industries to 'open' to foreign competition. For example, in Australia, one significant reform to industry structure was the lowering of domestic tariffs across the spectrum of local industries over the last two decades. However, reforms and restructuring of the regulatory industry environment needs to be comprehensive and integrated for success to avoid the sorts of endemic problems that have occurred in Thailand, Vietnam and Indonesia.

SUMMARY AND CONCLUSION

Australia has provided a supportive and consistent regulatory industry environment for SMEs over the last two decades and this has assisted the performance of Australian SMEs. There are still many reasons to feel concerned about the outlook for individual Asian economies including Australia. The range of differences in economic activity in Asian markets could be explained by the diverse social, cultural and political histories that have resulted in uneven levels of infrastructure and regulatory structural environments (Kennedy, 1999). For example, the markets of South East Asia achieved their technological and industrial revolutions in two to three decades. Yet it took the west one hundred and fifty years (Kennedy, 1999). These achievements and growth levels have dazzled western investors. Few noticed some of the problems that were beginning to emerge before the Asian financial crisis of 1997. For many Asian markets the social environment and political development has not kept pace with the 'economic miracle' and governments were not always able or willing to provide regulatory industry structures (politically, legally and economically) for ongoing stability and steady growth in the region.

The 'leap' from a rural market to an industrial revolution, to a post industrial, high tech service economy was accomplished in many Asian markets but the framework has not appeared to be as strong as originally hoped. Industry regulatory structures that encourage fewer tariffs and more foreign competition; more social and political reform; and greater appreciation for the complexity of global financial mechanisms are likely to encourage a new vitality back into the region as is evident in China, Taiwan and South Korea (Kennedy, 1999). The Australian government has made considerable effort to address industry regulatory structural factors, such as lowering all types of protectionism, domestically; and increasingly, to privatize state owned utilities, in such industries as airline, banking and telecommunication. The slow industry structural changes in the Australian market over the last two decades have meant that growth has been steady but not as spectacular as most of its Asian neighbours including New Zealand. The regulatory industry structural changes resulted in less protectionism, greater privatization of many industries and utilities, and increased internationalization of many Australian SMEs. These developments in part explain how Australian SMEs have performed relatively well and have increased their internationalization.

Finally, very diverse market and regulatory industry environments characterize the Asia-Pacific region. A review of the literature suggests that there are significant implications for exporting SMEs in certain industries, such as food, drink and tobacco and chemicals (Sundqvist *et al,* 2000). Cross-cultural research is needed to indicate the managerial implications for market orientation levels and their impact on firm performance of SME exporters in the region, participating in particular industries in unfavorable regulatory environments. High market orientation in unfavorable regulatory environments is not appropriate for all situations. Empirical research is needed to assess the variation in regulatory environments and its influence on certain industries in the region. This has significant managerial implications for market orientation or other strategy orientations of the firm.

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