

# Offsetting the Handicaps of The Small Enterprise Overseas

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The internationalization of Japan's small and medium enterprises has progressed rapidly in recent years. The boundary between their domestic and overseas business activities is gradually disappearing, and their activities are being integrated into the fabric of international society. Of Japan's total overseas investment, small and medium enterprises account for more than 10% on a value basis and nearly 40% of all cases. Moreover, it is estimated small businesses manufacture 40% of Japan's total exports of industrial products, including direct and indirect exports.

When investing overseas, however, small and medium enterprises often encounter unexpected problems due to insufficient advance research. Such companies rarely have enough competent personnel to fill overseas posts, and above all lack experience in doing business abroad. Eventually, many are compelled to abandon their foreign ventures as numerous routine problems, such as raising funds, communicating with local business partners and dealing with employees prove intractable because of the unfamiliar environment. Quite often it happens that the delayed settlement of these problems has disastrous consequences. In the case of a small business, failure in an overseas project does not end simply in withdrawal. It can prove a fatal blow resulting in the parent company's bankruptcy.

In recent years the export environment has become even more demanding for small and medium enterprises due to intensifying competition from NICs (newly industrializing countries) and rising protectionism in importing countries.

Small firms have had to step up their efforts to anticipate the needs of importer countries, diversify their export markets, and raise the value-added of their products. At the same time, small and medium trading firms are under pressure to play a greater role in importing manufactured goods, and especially in handling small lots of a great variety of products to meet diversifying consumer needs.

It must also be borne in mind that small and medium enterprises are assum-



The International Conference on Small Enterprise Policy held in Osaka in January 1983 drew some 170 people from 28 countries.

ing a more important role in technological exchange and industrial cooperation.

In recognition of these recent trends, the Ministry of International Trade and Industry (MITI) has drawn up the following policy measures to facilitate the internationalization of small and medium enterprises, on the precondition that they continue to make efforts on their own behalf.

## Roadblocks to overseas investment

1. Investment overseas by small and medium enterprises not only expands business opportunities for small businesses in Japan as a whole but has the further effect of promoting economic and industrial cooperation with host countries through technology transfer, creation of employment opportunities, and upgrading of their industrial structure. Moreover, it contributes to deepening mutual understanding between Japan and host countries through personnel and cultural exchanges. For these reasons, overseas investment by small and medium enterprises is of great significance. In making overseas investment, however, these enterprises are faced with difficulties in the following areas.

### 1) Information

Collection and analysis of information are a prerequisite for successful overseas investment. However, many small and medium enterprises have great difficulty in gathering and analyzing information. According to the "Survey on Overseas Investment by Small and Medium Enterprises" conducted by the Small and Medium Enterprise Agency (SMEA) in December 1983, many smaller companies find information concerning market trends, the legal system and the taxation system of the host country very difficult to obtain. The credit standing of the overseas business partner is also a greater concern for small and medium enterprises than for big enterprises. In the survey, this concern was expressed particularly by small and medium enterprises operating in developing countries (Fig. 1).

### 2) Human resources

The success or failure of corporate business activities overseas depends largely on the quality and competence of the staff assigned abroad. Small and medium enterprises inevitably lack competent staff because of their small scale. It takes time and money to train personnel. The survey revealed that in order to train staff for stationing overseas, many small

companies send their personnel repeatedly on overseas business trips to acquire experience before they are actually assigned to full-time overseas posts. Only a few enterprises have special training programs for personnel posted abroad.

### 3) Financing

Enterprises planning overseas investments have to draw up an easily implementable long-range financing plan. In drawing up such plans, they must take into account not only the amount of capital needed for the initial investment

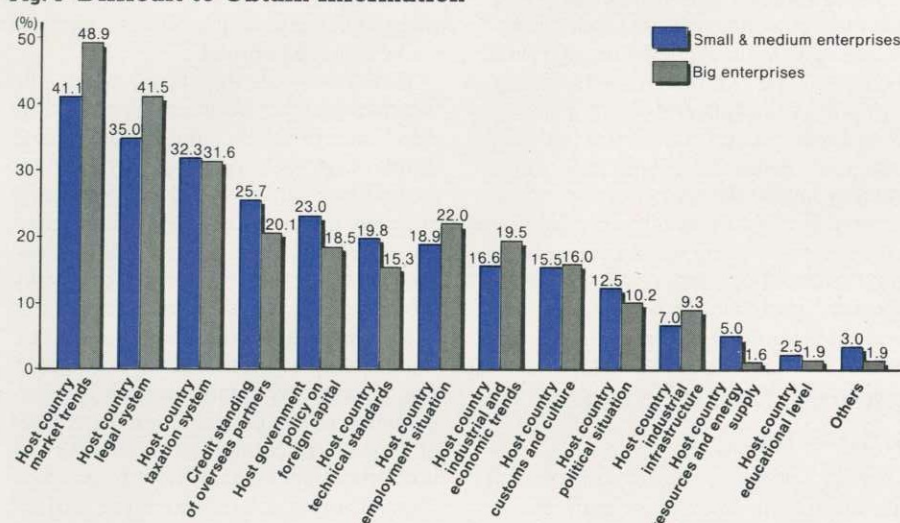
but also ways and means of raising operating funds after their advance overseas, and the time lag before their overseas business becomes profitable.

The survey disclosed that approximately 70% of the enterprises questioned financed their overseas investment with their own capital. This percentage is small compared with that of big enterprises, whose corresponding figure is about 80%. When asked about raising funds in host countries, many small enterprises cited as serious impediments

high money rates and the difficulty of using their overseas assets as collateral.

2. Because of the disadvantages small enterprises face in access to information, human resources and financing, they are believed to have a lower success rate overseas than large companies. The "Survey on Internationalization of Small and Medium Enterprises," conducted by SMEA in December 1984, found that the proportion of small and medium enterprises which said that their subsidiaries were operating in the black was small as

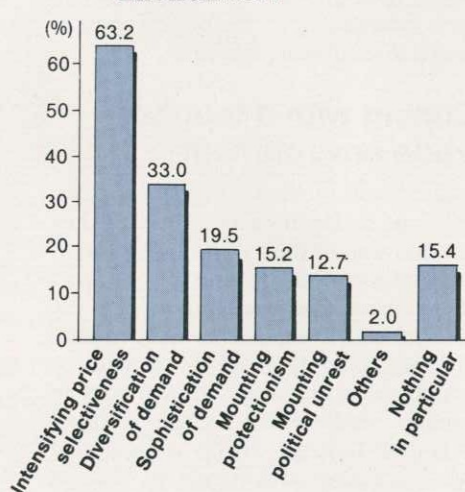
Fig. 1 Difficult to Obtain Information



Notes: The survey covered 3,500 companies selected at random from SMEA's list of small & medium enterprises broken down by industry. The response rate was 34.5%. Aggregate exceeds 100% because of multiple answers.

Source: "Survey on Overseas Investment by Small and Medium Enterprises," SMEA, December 1983

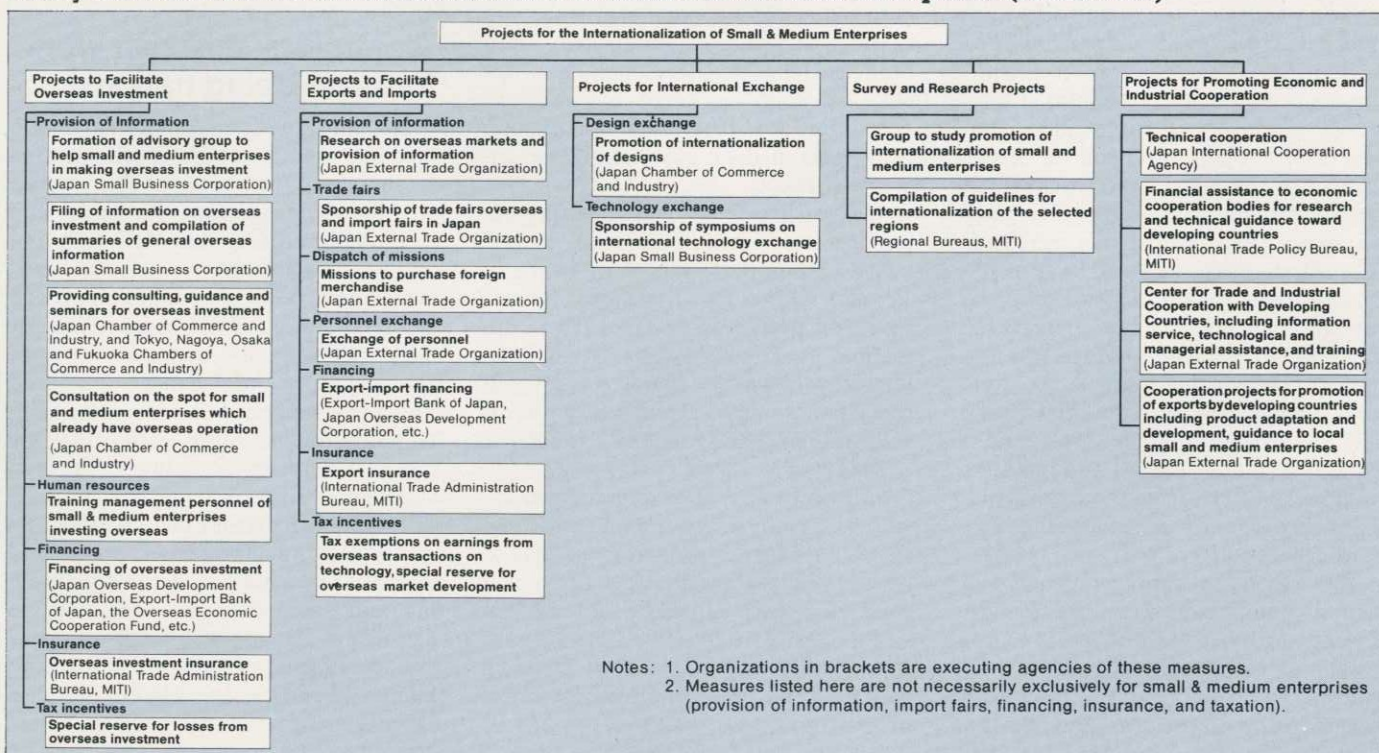
Fig. 2 Changes in the Export Environment



Note: Aggregate exceeds 100% because of multiple answers.

Source: "Survey on Export-Oriented Small and Medium Enterprises," SMEA December 1983

## Policy Measures for the Internationalization of Small and Medium Enterprises (Fiscal 1985)



compared with those of big enterprises. Even the number of small businesses currently in the red overseas but expecting to go into black in the future was smaller than among large firms.

3. Needless to say, the decision on whether or not to invest overseas must be made by the small and medium enterprises themselves at their own discretion. However, in light of their inferior ability to gather and analyze information, train manpower and raise funds, and considering the importance of avoiding unnecessary friction with host countries, the Japanese government is now taking policy measures designed to facilitate their overseas investments by supplementing their weaker areas.

## Coping with a tougher trade environment

Small and medium enterprises play a vital role in Japan's foreign trade. They not only export their own finished products but contribute greatly to the export of products manufactured by the big enterprises for which they subcontract. Similarly, the role of small and medium trading companies and distributors in handling small lots of a great variety of imported finished goods is assuming ever-increasing importance as foreign countries demand that Japan import more of their products and Japanese consumers' needs themselves become more diverse.

Yet there is no denying that the trade environment for small and medium enterprises has become far more difficult than before. The "Survey on Export-Oriented Small and Medium Enterprises," conducted by SMEA in December 1983, brought to light numerous changes in the major export markets of small and medium enterprises. The most frequently cited change was increasing price selectiveness, followed by diversification of demand and sophistication of demand. The tendency toward increased protection of domestic products was also a major concern. According to the same survey, about 90% of companies polled said that competition in major export markets has intensified. This represents an increase of 14% from the corresponding survey conducted in 1982 (Fig. 2).

To cope positively with such changes in the export environment, small and medium enterprises must work to diversify and upgrade their products as well as to open up new export markets. In order to avert competition and friction with local industries in overseas markets, they must strive to grasp more accurately than

before the changing situation in the marketplace and merchandise trends, and to give the utmost consideration to pricing and export volume.

In support of the efforts being made by small businesses to cope with changes in the export environment, the Japanese government is providing assistance to supplement what they may lack, such as adequate information gathering capabilities. The government is furnishing them with data on foreign trade and overseas economies, as well as helping them develop new markets by assisting their trade fairs abroad. It is also helping small and medium enterprises exchange personnel with their overseas counterparts in order to further mutual understanding.

In order to sustain and develop harmonious trade relations in the international economic community, it is very important that Japan take measures to promote imports. From this standpoint, the government is providing small trading firms with information and opportunities to discover attractive import goods and promote personnel exchanges.

## International exchange programs

Small and medium enterprises throughout the world have come under reappraisal in recent years as constituting the "vital majority" of their respective economies. Other countries are showing keen interest in Japan's small business sector, which has contributed significantly to the nation's economic growth. The number of people visiting Japan, from both developed and developing countries alike, to study its small and medium enterprises or to persuade them to set up operations in their own nations has increased sharply.

The world's first "International Conference on Small Enterprise Policy" (SMEs Summit) was held in Osaka in January 1983. About 170 representatives from 28 countries participated in this conference, a fact which speaks of the keen interests shown by various countries in the Japanese government's policy measures for small and medium enterprises.

This interest is expected to grow in the future, both at the governmental and private level. In order to respond positively to this increasing interest overseas and to learn from the experiences of foreign countries, the Japanese government undertakes international exchange projects to promote mutual understanding with the small and medium businesses of other nations.

Data on various aspects of small and

medium enterprises in the world and government policies are still inadequate for meaningful international comparison. Japan believes it can contribute significantly to the international society by conducting surveys and compiling data in this field.

## Research to make internationalization work

The internationalization of small and medium enterprises, beginning with overseas investment, is surging ahead, and policy measures are being implemented to facilitate their investment and trade activities abroad.

Particularly at this time, when the international environment surrounding these enterprises is changing rapidly and dramatically, it is increasingly important to conduct surveys and research and analyze information concerning their internationalization from medium- and long-term perspectives, both to identify problems and to make suggestions.

For this, a group to study the internationalization of small and medium enterprises has been organized with the participation of scholars and representatives of organs concerned with the overseas investment activities of such businesses. This group has been studying various problems involved in internationalization. It is also making suggestions for promoting the internationalization of small and medium enterprises in parts of Japan where internationalization is lagging.

## Technology that can work for developing nations

Foreign interest in Japan's small and medium enterprises has been growing by the year. The causes of this interest are the vitality of Japanese small and medium enterprises and their technical level, which closely matches the level of economic development in some developing countries. Numerous countries hope to find in the management style and technology of Japanese small and medium enterprises and in governmental promotion measures lessons that will prove helpful in fostering their own small enterprises.

The Japanese government is undertaking projects to promote economic and industrial cooperation at the small and medium enterprise level, including the dispatch of experts to foreign countries and the hosting of study missions from foreign countries, in order to increase Japan's contribution to the international economic community. ●