

Japanese smes going global: lessons from "german mittelstand"



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Introduction

Japan and Germany share many similar economic characteristics. As the third and fourth largest economies in the world, both boast highly skilled labor forces and are leading manufacturers of industrial goods such as automobiles, machinery, chemicals, electronics and other high-tech products. But while Germany has been on a robust recovery track and relatively unaffected by the financial crisis, Japan's economy has been suffering from deflation and sluggish domestic demand.

Its growth prospects are further subdued because of its shrinking population. Exports have been the main driver of economic growth in recent years. In Germany, small and medium-sized enterprises (SMEs) are highly active in international trade and responsible for a large share of exports. Germany's mid-sized companies, known as 'Mittelstand', are the backbone of its economy. As the "German economy is doing well in comparison with many other countries, this is causing people all around the world to take a particularly keen look at

Germany, and especially at the 'German Mittelstand' and its longstanding record of high employment and productivity.", notes the Federal Ministry of Economic and Technology (BMWi, 2012). Coined "hidden champions" by Hermann Simon, the most successful and innovative of them are world-leaders in their field. Although many of them started from humble beginnings and are still family-owned today, they have globalized early on. According to Simon's research more than 1,000 hidden champions exist in

Germany, many more than in all other countries combined including Japan (Simon, 2012).

He sees them as the main contributors to Germany's international competitiveness. Some economists and policy-makers therefore recommend other countries to emulate them as a role model. The success of Germany's mid-sized companies or "hidden champions" has not gone unnoticed. In its latest White Paper on International Economy and Trade, Japan's Ministry of Economy, Trade and Industry (METI, 2012, p. 503) refers to Germany's "excellent small and medium-sized companies" which have pursued a two-pillar strategy of high specialization in their fields of expertise combined with global marketing.

With sales of up to 4 billion euro, many hidden champions have outgrown the size of a traditional SME. But even among German SMEs with less than 250 employees according to the definition of the European Commission, almost 20% of all companies are engaging in direct exports. In contrast to their German peers, most Japanese SMEs today still remain focused on the domestic market. While their numbers have been growing in recent years, less than 3% of all SMEs with less than 300 employees are export-oriented. The contrast is even more pronounced in the case of 2 oreign direct investment. While in Germany 17% of all SMEs have invested abroad, the percentage among Japanese SMEs is as low as 0. 3% (METI, 2012, p. 503). The smaller their size, the lower the proportion of companies engaged in exports and foreign direct investment. Although small and medium-sized companies dominate Japan's industrial structure, few of them are involved in international trade. Exports have traditionally been carried out by general

trading companies or by large multinational manufacturers, for which SMEs work as subcontractors in vertical supplier networks.

But as domestic demand is shrinking, many Japanese SMEs need to look beyond their home turf for business opportunities in new markets. Encouraging SMEs to expand their overseas business therefore is seen as an important step towards revitalizing the Japanese economy. The Japanese government has set up schemes to promote overseas business expansion. In July 2012, it included SMEs as one of the four main pillars in its “ New Growth Strategy” besides healthcare, environment and agriculture. Still, many SMEs seem to lag their German peers in overseas activities. What are the factors that keep Japanese SMEs from going abroad?

How can government initiatives effectively address these challenges? And what are their results? Based on company surveys and statistical data of exports and foreign direct investment, this paper will first look into the recent trend of global activities by small and medium-sized businesses in Japan. It will then compare initiatives for the export and investment promotion of SMEs in both Germany and Japan and try to assess their results. By referring to available data and company surveys, the paper will try to show a positive linkage between overseas activities and job creation at home.

It will also argue that government initiatives succeed in supporting a company’s first steps on a foreign market, but that they have to be accompanied by support activities by the parent company in order to secure long-term success. Finally, the paper will highlight fundamental differences in economic structure, management practices and the labor market between <https://assignbuster.com/japanese-smes-going-global-lessons-from-german-mittelstand/>

Germany and Japan, which need to be addressed in order to facilitate overseas business for Japanese SMEs. 3 2. Japan's SMEs and overseas business 2. 1 SMEs and their role in the export economy

Outside of Japan much of its postwar economic success has been credited to automotive and electronic giants such as Toyota, Nissan and Panasonic with their strong export machines and global manufacturing presence. SMEs have often been ignored despite the crucial role they play in the Japanese economy. Companies with less than 300 employees make up 99.7% of all 4.2 million companies. They employ 69% of the labor force and create 53% of value-added in the manufacturing sector. The reason for SMEs being so little known is that most of them are domestic companies with little or no international exposure.

According to the 2012 White Paper on Small and Medium Enterprises, only 2.7% of all SMEs in the manufacturing sector are "export-oriented" (SMEA, 2012). The majority of small businesses remain isolated from international markets and foreign competition. Japan therefore has been described as a "dual economy" consisting of relatively few large, highly advanced, multinational companies on the one hand and a huge number of traditional, domestic-oriented, small businesses on the other. In his 1990 book *The Competitive Advantage of Nations*, Michael Porter already warned that unless Japan overcame this dualism, its future would be at stake.

What he observed, was a lack of competition in sectors apart from machinery, automotive and electronics: "While domestic rivalry is intense in every industry in which Japan is internationally successful, however, it is all but absent in large sectors of the economy" (Katz, 1996). Porter's warning <https://assignbuster.com/japanese-smes-going-global-lessons-from-german-mittelstand/>

statement seems to have fulfilled itself twenty years later, as Japan slides into its third decade of slow or no growth. Sectors such as construction, paper, food and agriculture are still characterized by a lack of international competition. Almost none of these industries have produced successful global players.

Nevertheless, there is a rising tendency among small and medium-sized businesses to reach out for global markets. Although still small in number, SMEs with export activities have increased by two thirds from 3, 568 to 5, 937 between 2002 and 2009 (Figure 1). According to Bank of Japan figures, exports accounted for 4. 4% of SMEs' sales in 2002, but this had risen to 7. 4% by 2008. Large enterprises saw their exports grow from 23. 7% of sales to 27. 8% over the same period. In sales volumes, SMEs' exports doubled to 5 trillion yen (43 billion euro) while those for big companies grew a more modest 37% to 71. trillion yen (622 billion euro) (EIU, 2010, p. 14). Foreign direct investment by SMEs is also on the rise: the number of small businesses in the manufacturing sector investing overseas increased from 2, 013 to 2, 869 between 2001 and 2009 surpassing that of large manufacturers by almost 20% (SMEA, 2012). In JETRO's annual survey among 2, 800 companies engaged overseas, 71% of SMEs responded they planned to actively expand their overseas business, while only 47% intended to expand their domestic operations (JETRO, 2012a, p.). Comparing with earlier surveys, the proportion of companies looking into business opportunities abroad is one fourth higher than in 2008 showing a steady increase year by year. This recent surge in international activities is due to a number of factors: a shrinking domestic market, the relocation of clients'

manufacturing facilities overseas, the opening up of traditional supplier networks to foreign competition, cheap labor and new business opportunities in emerging markets such as China and Southeast Asia.

It is often said that overseas investment will lead to a shift in production, a “hollowing-out” of the domestic industrial base, and job redundancies at home. Individual company data, however, suggest that the opposite is the case. According to figure 2, parent companies have grown after the beginning of overseas investment (JSBRI, 2012, p. 95). Comparing SMEs with foreign direct investment with those that have not been active in FDI at all, one can clearly show a positive correlation of overseas expansion and job creation at home.

SMEs observe other financial and operational benefits of investment in overseas production bases as well, such as an increase in profits, a reduction in cost and a speedier response to requests in their host market (JSBRI, 2012, p. 94). When asked about their regional focus of expansion in the next three years, Japanese companies put China on top of the list in every category from sales operations to production to R&D. Among the firms operating in China, half of them have located their bases in Shanghai.

Thailand, Indonesia and India also rank high and are considered as more attractive sales destinations than the USA and other developed markets such as Western Europe (JETRO, 2012a). Regarding industries, production machinery, chemicals, electrical machinery and fabricated metal account for 43% of all exporting companies in the manufacturing sector. Looking in more detail at different industries, one can observe significant differences in export orientation. While 15% of all chemical manufacturers and 7% of

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electronics parts and device manufacturers are involved in exports, only 1. % of all textile manufacturers and just 0. 7% of food processing companies export their products (JSBRI, 2012, p. 250). This drastic gap highlights the dualism of globally competitive and non-productive, domestic industries. 5 For small and medium-sized wholesalers with up to 100 employees as well, exporters of machinery, equipment, and chemicals prevail, while those for apparel, agriculture and food remain in the minority (JSBRI, 2012, pp. 71-72). But the Japan External Trade Organization (JETRO, 2012b) observes a rising number of companies in the food and non-manufacturing sectors such as retail, wholesale and services.

In the fields of agricultural, forestry and marine products and foodstuff, “ many SMEs, even in the face of economic headwinds such as appreciation of the yen, are continuing to make efforts to exploit overseas markets. ” Small companies involved in overseas business, however, still are the exception in Japan, even in the relatively productive manufacturing sector. The proportion of companies with export activities decreases by size. According to the “ White Paper on International Economy and Trade 2011”, one out of four manufacturing companies with 401 to 500 employees is involved in exports.

For companies with 101 to 200 employees the proportion falls further to one out of eight. And when it comes to companies with 41 to 50 employees, only one out every 20 has export activities (METI, 2011, p. 12). The low number overall, and particularly among smaller companies, is striking when we think of Japan as one of the world’s major trading nations. From the figures above, we can conclude that a major part of the Japanese economy is not taking

part in the international division of labor and leaving business opportunities untapped.

The conspicuously low number hints at underlying obstacles and challenges hindering overseas market expansion. We will look at these in the next section.

2.2 Challenges of starting overseas activities

As shown above, the proportion of Japanese SMEs developing operations overseas is still rather limited and activity tends to be greater in larger companies and in certain industries. In order to succeed in overseas markets, SMEs face certain barriers and have to overcome many challenges.

The Survey on the Enhancement of SMEs' Competitiveness through Overseas Business Expansion commissioned by the SME Agency in November 2011, looked at requirements that have to be met for companies to go abroad. More than 50% of all companies with export activities regarded having customers and a reliable partner as vital requirements for starting to export, underlining the importance placed on securing customers first (JSBRI, 2012, p. 82). Comparatively high proportions of enterprises also cited knowledge of local legal systems, business practices and trends in export markets as well as in-house expertise in exports, suggesting the importance of building knowledge of export markets and export procedures. One third of the respondents considered financial issues such as financial reserves or the prospect of turning a profit as important, but they did regard them as determining factors. In the case of FDI, however, financial reserves were considered as crucial by three quarters of all companies with overseas sales or production bases. 60% cited the knowledge of the host market's legal

system and business practices as important requirement suggesting the need for research and consultation prior to investing overseas.

Having customers and reliable partners were also cited by more than half of all respondents. Questioned about challenges and risks, almost 50% of all companies considered the identification and collection of information on local market needs as particularly difficult. Marketing in the local market, securing business partners and terms of the local market were also cited to be important issues by more than one third of all respondents, while financing or credit issues only worried 22%. The lack of adequate human resources with international experience is another, if not the most important factor hindering overseas activities.

In a 2010 SMEA survey, the “ failure to secure human resources at home ” was cited by 37% of all manufacturers as the main reason for giving up plans to invest overseas. It was regarded as more important than finding the right business partner, information collection or financing (METI, 2012, p. 280). JETRO (2012b, p. 15) notes that “ large Japanese corporations are able to secure and foster global human resources through regular fulltime employment of foreign workers, sending young workers still new to their respective fields abroad and conducting overseas executive training programs.

SMEs, however, find it much harder to take such measures and are hesitant to launch business operations overseas without such personnel. ” This statement hints at a deep-rooted dualism in Japan’s labor market. While in Germany small and medium-sized enterprises are regarded as popular employers as they provide 83% of vocational training opportunities and <https://assignbuster.com/japanese-smes-going-global-lessons-from-german-mittelstand/>

stable, long-term career opportunities (BMW, 2012, p. 4), Japanese jobseekers have tended to favor the security of employment at large corporations over low-paid jobs at SMEs.

Traditionally, new university graduates, especially from top-ranked academic institutions, have a strong preference for jobs in well-known corporations or in government entities. The 2013 ranking of the most popular employers conducted by Rakuten (2012) among more than 6,000 students is topped by Japan's largest advertising agency Dentsu, general trading company Itochu and the operator of "Tokyo Disney Resort" Oriental Land followed by cosmetics brand Shiseido, Tokyo Mitsubishi UFJ Bank and All Nippon Airways. Among the 100 top-rated companies, none falls into the category of small and medium-sized enterprises. Attracting experienced and skilled workers remains difficult for SMEs, but, as the Economist Intelligence Unit (EIU, 2010, p. 4) notes, "tough economic times present an opportunity". According to its 2010 report, "the cloud of the recent recession has brought two silver linings for SMEs: new entrants to the workforce are showing more interest in working for small companies, and larger businesses that are reluctant to fire workers can transfer the knowledge of experienced staff through employee loan programs. On a similar note, JETRO (2012b, p. 15) observes that "there are some SMEs making efforts to expand abroad by independently securing the necessary human resources such as by utilizing foreign students in Japan, former-trainees who completed special training courses for foreigners in Japan, Japanese with volunteer work experience overseas, or retirees." Despite the recent growth in overseas activities, many challenges remain.

In the following section, we will look at how these are being addressed by government initiatives. Initiatives for the promotion of overseas business Public support system for globalizing SMEs In Japan, many public and private institutions provide support functions for SMEs going abroad on a local and international level. On a global scale, JETRO, a government agency under the METI with 73 offices in 55 countries, plays an important role in promoting mutual trade and investment between Japan and the world.

Originally established in 1958 to promote Japanese exports abroad, according to its website, “JETRO's core focus in the 21st century has shifted toward promoting foreign direct investment into Japan and helping small to medium size Japanese firms maximize their global export potential”. On the local level, the Organization for Small & Medium Enterprises and Regional Innovation (SMRJ), established by METI in 2004, supports SMEs through nine regional offices across Japan, with the objective of “SME development and regional promotion. Although its main activities focus on regional development, it has stepped up its support measures for overseas business development by organizing seminars, establishing a support hotline and publishing a “Handbook for Supporting Overseas Business Development”. To facilitate assistance to SMEs expanding into overseas markets in a more systematic manner, METI has established the “Conference on Supporting SMEs in Overseas Business” in October 2010 by bringing together government officials and support institutions, such as JETRO, SME associations and 8 financial institutions. Reflecting the results of interviews with approximately 5,000 SMEs, five key issues for supporting SMEs in overseas business were identified:

- Information

Providing necessary information reflecting the needs of SMEs in detail. Offering consistent support to SMEs by sharing support records by the conference members

- Marketing

Supporting product development, and participation in overseas trade fairs. Supporting the effective use of the internet for overseas business

- Human resources development and securing talent

Helping to develop human resources for overseas expansion through seminars, training. Helping to secure competent human resources for overseas expansion through matching

- Financing

Enhancing the financial consulting structure. Facilitating financing for SMEs when doing overseas business

- Improvement of the trade and investment environment

Providing information on the establishment of overseas operations. Assistance regarding tax, labor and intellectual property matters. The conference also established concrete action plans for support measures on a global and local level.

Actions include information gathering and dissemination through the sharing of best practices, overseas business missions, the invitation of international buyers to trade fairs in Japan, virtual marketplaces, advice on legal, technical and financial issues, and exchange programs for international trainees. The <https://assignbuster.com/japanese-smes-going-global-lessons-from-german-mittelstand/>

conference also planned to hold 2, 500 overseas business and investment seminars by the end of fiscal year 2013 or some 700 a year throughout Japan, in cooperation with JETRO and SMRJ and other institutions.

Despite the various services on offer, many companies do not make use of them due to bureaucratic procedures or are simply not aware of them. According to research commissioned by SMEA, only 39% of Japanese SMEs that are going overseas have used any globalisation assistance, including government and private-sector support (EIU, 2010, p. 16) For SMEs asking for assistance in their overseas expansion, JETRO is by far the most used contact point. 4% said they used JETRO services as compared to 13% for the chambers of commerce, 11% for banks and 10% for private consulting firms (METI, 2012, p. 280). JETRO provides information on foreign markets through its website and various publications, consulting services and seminars for 9 companies interested in overseas business. Below, we will focus on three fields in particular and try to assess their results.

3. 2 Export promotion through trade fair participation

Finding the right business partner and collecting information of overseas markets are two of the challenges cited by many SMEs.

Generally, trade fairs have been recognized as highly effective instruments in international market expansion. In recent years, JETRO has stepped up its efforts to promote Japanese companies abroad through trade fairs and trade missions. SMEs, especially firsttime exhibitors who qualify, can participate in these events at favorable conditions. These activities are similar to initiatives by other countries such as the Institute of the German Trade Fair Industry,

which supports German companies' international expansion at 274 exhibitions worldwide.

For Japan, no information about the annual number of joint trade fair participations could be obtained, but “Japan Pavilions” at international trade fairs worldwide bring together more and more Japanese exhibitors, among which many SMEs, under a joint “Japan” brand. Examples include “Medica & Compamed” in Dusseldorf, “Maison et Objet” in Paris and “Bio International Convention” in Chicago. In order to tap into the demand of emerging nations, JETRO organizes joint pavilions at trade fairs in the BRICS nations, Southeast Asia and the Middle East, such as “ArabHealth” in Dubai and “Asia Fruit Logistica” in Hong Kong.

In November 2012, Japan even had a presence at the Baghdad International Trade Fair with 17 private companies and three governmental institutions. In comparison with other support measures such as seminars or business matching, exhibitors at trade fairs often report concrete results, as trade fairs offer the opportunity to gather the latest market trends, generate sales leads, and to find potential business partners. According to a 2010 survey, 40% of Japanese participants in JETRO-supported trade fairs reported direct results, another 30% said they felt indirect results (METI, 2012, p. 80). Surveys on the effects of “Japan Pavilions” are not yet available, but it can be assumed that relatively unknown SMEs, which are still newcomers to overseas markets, benefit from a joint presence under the “Japan” brand instead of exhibiting on their own. However, as countries such as Germany, France, the UK, the USA, China, Taiwan and others are aggressively promoting their own national brands, Japan needs to continue its marketing

efforts in order to keep up the public's recognition. The advanced technological expertise cultivated by Japanese SMEs has often been well-recognized.

New labels such as “ Japan Style” for design products or “ Cool Japan” for exporting its creativeculturesuch as anime and manga will help to open up new sales channels for consumer goods as well. 10 3. 3 Foreign direct investment and financial support When companies set out to explore overseas business development, they find in many cases inadequate information regarding investment climates in foreign countries, and what funding is available to their ventures. Surveys cited above suggest that financial reserves are regarded as the number one requirement for overseas investment.

In its “ New Growth Strategy”, the government acknowledges that supporting underfunded SMEs which have proven resources and technologies through a new supporting system is a pressing issue. It refers to the SME financing act expiring in March 2013 and which, if not extended, threatens many ailing SMEs. The government also encourages a change of practice from a collateral and guaranteebased lending to business-based lending in order to diversify fund raising programs for SMEs. For companies with overseas investment plans, however, advisory and funding are readily available.

Research into the financial institutions servicing SMEs, shows that Japan's support infrastructure for overseas ventures is well developed. For instance, SMEs can apply for low-interest financing under the government's fiscal and loan program through three government financial institutions: the National
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LifeFinanceCorporation, Japan Finance Corporation for Small Business, and the Shoko Chukin Bank. Furthermore, the Japan Bank for International Cooperation (JBIC) supports overseas business development not only for large corporations but for SMEs as well.

According to a recent report by Nikkei (Nikkei Net Interactive, January 7, 2012), the government has decided to inject 70 billion yen into a new fund managed by JBIC that will support overseas investment and M by large Japanese companies and SMEs. JBIC's "Advisory and Consulting Office" for SMEs (ACOSME) supports overseas business expansion of Japanese SMEs by providing the latest information on local conditions and the investment climate in individual countries. The ACOSME also offers consulting services for obtaining long-term financing.

Its website (www.jbic.go.jp) introduces the case study of auto parts manufacturer Aikitec from Nagoya, which successfully built production facilities in Indonesia and China by using JBIC's financial support. ACOSME also publishes investment guides for major ASEAN countries, and reports on the investment climate in China and Central and East European countries. In addition to responding to SME inquiries individually, ACOSME also sends speakers to meetings held in many Japanese cities for disseminating information on the foreign investment climate. 1 Looking at the companies which have successfully invested abroad, one might be surprised that 5,630 or 70% of the 7,977 enterprises in total with overseas subsidiaries in 2009 were SMEs (JSBRI, 2012, pp. 75-76). More and more automotive or electronics suppliers have set up manufacturing facilities in China, India and

Southeast Asian countries. These successful cases, although still limited in relation to the huge potential, show that funding issues can be overcome.

When it comes to financing, a 2009 Survey on SMEs' International Business Expansion by the Shoko Chukin Bank and Shoko Research Institute shows that the parent company plays a crucial role in the relation with its overseas bases. "In order to make FDI more effective, close collaboration between a parent company and its overseas subsidiaries is crucial", notes the Japan Small Business Research Institute (JSBRI, 2012, p. 96) in its SME White Paper. In the non-manufacturing sector, financing is regarded as the most important issue.

Besides financing, common forms of support provided by parent companies in Japan to overseas subsidiaries include assistance with the launch of new products or services and technical supervision by permanent or visiting staff. Human resources development for global activities With the growing importance of overseas markets, SMEs expanding into other countries have to adapt to various local environments. As we have seen above, these SMEs, however, often lack the necessary global human resources.

JETRO has identified three core competencies required of global human resources, in addition to foreign language abilities:

1. the ability to take decisive action,
2. the ability to effectively convey oneself,
3. the ability to succeed in a multicultural environment (JETRO, 2012b, p. 15).

Public and private institutions have set up several programs to facilitate the “securing and fostering global human resources”. The “METI Global Internship Program” implemented by the Overseas Human Resources and Industry Development Association (HIDA) is targeting young business people.

It screens and selects 50 to 100 applicants per year for three to six months long internships in government agencies or Japanese subsidiaries in developing countries. According to a METI press release, the program’s purpose is “to develop global human resources which will play an active part in dramatically-expanding markets in rising countries, acquiring infrastructure business, promoting small- and medium-sized enterprises’ global expansion and other actions”.

Other initiatives such as the “Career Development Program for Foreign Students in Japan” tapped into the potential of “excellent students from Asia” at Japanese universities. Divided into nine 12 regional chapters, the program, which ran from 2009 to 2012, placed foreign trainees in companies throughout Japan in order to support local businesses. In the Osaka (Kinki) area, its goal was to attract “human resources who can bridge Kinki with Asia in business and who can play a central role in the company's expansion of its business overseas, in the advancement of economic globalization”.

Although large corporations such as Panasonic, Daikin, Omron or Murata were among the participating companies, the program aimed at “human resources who can play a key role in the enhancement of technologies and management innovations in medium and small-sized enterprises accounting for large part of companies in Kinki, particularly in manufacturing

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companies". According to its Japanese website (www.ajinzai-sc.jp), several trainees decided to join local SMEs in the Kinki area. It brought about some change in the participating companies as well.

Companies, which used to be hesitant to take in foreign students at the beginning, started to open up and take in trainees year after year. Although the program brought about some tangible results, it was discontinued after four years at the end of 2012. Programs like these facilitate personal exchange and daily interaction between Japanese staff and foreign employees, but in many companies, especially SMEs, it is still very limited. In order to prepare for their ambitious globalization goals, some companies have taken drastic steps: Two of Japan's fastest growing corporations, apparel brand Uniqlo and online shopping company Rakuten, have changed their official language to English. Others have started recruiting foreign students, train them and send them overseas. Foreign employees in SMEs, however, remain an exception and in many small companies English skills are still limited. For years, Japanese companies have focused their efforts on manufacturing excellent products and developing innovative technologies. Their international marketing efforts, however, have not followed the same world-class standards due to a lack of ideas and experience. For SMEs to develop business closely involved with global markets, JETRO (2012b, p. 15) concludes, " they should focus their energy on ' hito-zukuri (building people)' in addition to ' mono-zukuri (manufacturing products)' . "

Conclusion

In the course of the past decade, Japan's small and medium enterprises have made significant progress in their international activities. More and more

SMEs tap into business opportunities in overseas markets, especially in fast growing regions such as China and other emerging markets. In international comparison, however, Japan's SMEs still remain laggards in terms of export orientation and foreign direct investment. As companies from Germany or other countries are expanding at an even higher pace, Japan's SMEs risk to fall behind. SMEs that plan to expand overseas report many challenges and uncertainties, which the public support system tries to address. Barriers to entry have been lowered as assistance becomes readily available. Currently the Japanese government offers assistance to SMEs via several channels, including JETRO, SMRJ and the Japan Chambers of Commerce as well as through funding assistance for some overseas operations, for instance via loans by the Japan Bank for International Cooperation.

Yet, as the Economist Intelligence Unit has pointed out, "lack of awareness and complicated application procedures hinder the take-up of such programs." (EIU, 2010, p. 16). Despite all efforts, the number of SMEs involved in overseas activities remains strikingly low. This globalization gap cannot be explained by barriers to overseas expansion alone, as larger Japanese corporations or companies from other countries face similar challenges. They rather hint at much more fundamental issues, such as a lack of management resources and personnel with language skills and international experience.

Internship programs, seminars and other initiatives address the issue of fostering "global human resources". But with a few dozen or even several hundred participants a year these initiatives are nothing more than a drop in the ocean. Most SMEs still lack a global mindset. In order to prepare

hundreds or thousands of SMEs for their globalization efforts, a nation-wide effort in English education and intercultural training would be needed. Government programs cannot address all the problems small companies have in recruiting well educated personnel.

It is up to the SMEs to be creative and improve their image in order to attract better local and international talent. By focusing on their core strengths of quality, technology, and innovation, Japan's SMEs need to create a brand reputation that will make them employers of choice for highly skilled workers and lift their image overseas. Germany's "Mittelstand" can serve them as a benchmark. The dualism in Japan's economy, which Michael Porter observed more than twenty years ago, has not been overcome.

It seems to have become even more entrenched as large manufacturers relocate their production overseas and many SMEs are left behind. If Japan wants to keep its competitive edge, it has to help more small and medium-sized companies jump on the bandwagon of globalization. Should it fail, its economy risks to stray even further off course.

References

1. Abbreviations: BMWI Bundesministerium für Wirtschaft und Technologie / Federal Ministry of Economics and Technology EIU Economist Intelligence Unit JETRO Japan External Trade Organization JSBRI METI Japan Small Business Research Institute Ministry of Economy, Trade and Industry
2. SMEA Small Medium Enterprise Agency Bibliographical Sources: BMWI (2012), German Mittelstand: Engine of the German Economy: Facts and figures about small and medium-sized German firms, (www.bmwi.de).
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 5. Simon, Hermann (2012), Hidden Champions: Aufbruch nach Globalia: Die Erfolgsstrategien unbekannter Weltmarktführer, Campus. SMEA (2012), Key Points of the 2012 White Paper on Small and Medium Enterprises in Japan (www.chusho.meti.go.jp/). 16 Figure 1: Export-orientation of Japanese SMEs 7000 6000 5000 4000 3000 01 02 03 04 05 06 07 08 09 Number of export-oriented

6. SMEs Percentage among overall SMEs 4 3, 5 3 2 1, 5 1 0, 5 Source: SMEA (2012), Key Points of the 2012 White Paper on Small and Medium Enterprises in Japan, p. 2 Figure 2: Number of workers in Japan at SMEs starting FDI in fiscal year 2002 (= Index 100) 114 112 110 108 106 104 102 100 98 96 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 Enterprises that started FDI in fiscal 2002 and continued through fiscal 2009 (n= 53) Enterprises that did not engage in FDI at all between fiscal 1995 and 2009 (n= 5103) Source: JSBRI (2012), White Paper on Small and Medium Enterprises in Japan, p. 95 17 in % 2, 5