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Title: Internationalization Strategy of Asian SMEs: Culture as an element of strategic Differentiation to compete in foreign markets.

Abstract:

With the increase in competitors in international markets that supply very similar goods and services, the product itself or its price have left to be elements to compete. Enterprises need to base their internationalization strategy on other kinds of elements that create corporate recognition and preference. These new elements should be based on more conceptual aspects related to the enterprise's differentiation. Brands are a well-known example of strategic differentiation, but they are not the only one

The purpose of this paper is to argue the importance of culture as an element to compete in foreign markets and to show the conditions(requirements) that Asian Small and Medium Enterprises (SME's) should meet to focus their internationalization strategy on their culture as a key element to differentiate themselves from competitors.

Based on research covering the Japanese SMEs of a special sector located in a city of Japan, this paper concludes that certain Asian SMEs that, produce special goods with cultural elements inherent to them instead of ordinary goods and services, should use these cultural elements as the core of their internationalization strategy.

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Internationalization Strategy of Asian SMEs: Culture as an element of strategic Differentiation to compete in foreign markets.

1. Introduction: Asian Small and Medium Enterprises

The internationalization of enterprises contributes to the economic growth of countries, in addition the strongest countries in terms of Gross Domestic Product (GDP) or per capita GDP are also the biggest exporters. The internationalization of SMEs has the best importance for the development and growth of countries with a high proportion of small and medium enterprises (SMEs),

As in the European Union-27, in which 99.8 percent of enterprise are SMEs, in Asian countries of the APEC¹ region the proportion of SMEs is similarly high (Table-1).

Table-1: Percentage of SMEs	
99.9%	South Korea, Indonesia
99.6%	The Philippines
99.2%	Japan, Malaysia
99.0%	People's Republic of China, Singapore
98.0%	Hong Kong, Taiwan
97.0%	Viet Nam
96.0%	Thailand
Source: APEC,	

Asian SMEs employ a 60 percent of the work force, but they generate only around 30 percent of exports. The development and internationalization of these SMEs will play an important role in the growth of these countries' economies.

Exporting is the main way to internationalize an enterprise but there are other forms such as importing, foreign direct investment, international business cooperation agreement and projects in foreign markets. Although internationalization does not refer exclusively to export in this paper, we focus in it.

The relationship between innovation and export has long been investigated (Montobbio and Rampa, 2005 and DiPietro and Anoruo, 2006). Studies show that innovation, as measured by new products, new production process and improvement of existing products, are an important determinant of exports.

¹ Asia-Pacific Economic Cooperation

Japan has been an example of economic success based on innovation, export and economic growth throughout the last century as well as South Korea, Singapore, Hong Kong and Chinese Taipei (the Four Asian Tigers) since the early 1960s.

Other Asian countries such as Malaysia, Indonesia, The Philippines, Thailand, or Viet Nam are carrying out national programmes for the sustainable growth and development of SMEs which include technology to increase product quality and reduce production costs to be more competitive.

For ordinary products produced industrially in large quantities, being competitive in price, product quality and delivery time is necessary to compete in foreign markets, but it is no longer enough for exporting successfully.

In addition, the export of non-ordinary products or services requires more conceptual and less material elements. Brand is a well-known example of conceptual element because a brand is a name or logo that represents a concept.

Another conceptual element that allows SMEs to differentiate themselves from their competitors is culture. Asian SMEs producing special products should use their cultural elements for competing in foreign markets and thereby export.

Export is not a matter of selling occasionally abroad but of obtaining steady customers in foreign markets

2. Differentiation to Compete in Foreign Markets

Some studies² establish the link between exports and enhanced competitiveness and according to Professor Fujimoto³, competitiveness is related to factors such as cost, quality, delivery and flexibility to changes in quantities and product.

To be competitive in product, quality, delivery time and prices is necessary for exporting. In fact, it was the traditional way to compete and still is a suitable way for companies producing large quantities. But this is not the case of SMEs. In addition, because of the great increase of enterprise selling very similar goods and services in international markets, this is not possible anymore.

² As an example: Establishment level empirical study of links between exporting, innovation and productivity-CIS4" Richard Harris and Q Cher Li, September 2006

³ Takahiro Fujimoto, Department of Economics, University of Tokyo.

There is no doubt that Asian SMEs must be competitive to export, but to improve the product features, quality and price is only the initial step to export. SMEs of developed countries are already competitive in such factors but nevertheless not all these SMEs are able to export. The differentiation element cannot lie on these factors because most of exports have them.

Therefore, Asian SMEs that want to begin to export should offer other elements to differentiate from the already existing competitors. They need to base their internationalization strategies on more conceptual elements that permit create corporate recognition and permanent preference, in other words, strategic differentiation. Brands are known examples of strategic differentiation, but they are not the only one's.

Furthermore, one of the main SMEs problems is their critical lack of a defined strategy to internationalize⁴. Internationalization strategy is the basics for doing successful business in foreign markets especially in the case of SMEs. If strategy is understood as the whole of decisions taken by an enterprise to achieve its objective, then the export strategy is the structured plan that is essential for the successful exporting performance.

Thus the export plan is the strategy that the enterprise decides to get and keep regular customers in foreign countries. It also allows the enterprise know in advanced the potencial risks and mistakes of each decision before carrying out and with enough time to deal with them and with the least possible problems and costs.

One of the decisions that SMEs have to take is how compete in foreign countries, in other words, how is the SME different from its competitors?

Differentiation is the reason by which customers prefer our SME. Strategic differentiation should be the core of all internationalization strategy and it is closely related to the business activity to which the enterprise is dedicated.

The business activity of SMEs is not its product. Within the export plan, SMEs define how compete and what is the market according to their business activity. On the other hand, product is a marketing tool that change with each foreign target market. Therefore, to elaborate the export strategy is more suitable analyse how differentiate the business activity than how differentiate product.

⁴ Final Report of the Expert Group on Supporting the internationalisation of SMEs. European Commission, Promotion of SME competitiveness Entrepreneurship, December 2007

SMEs can be involved in multiple business activity, in which case would be more effective to choose one of them to begin to export. For instance, a SME producing long thin pieces of wood can have two business activities: first boards for bed base manufactures and second shelves for final consumers. Then it must decide which is the more suitable business activity to export, it is say, which is the business activity with a differentiation to compete abroad.

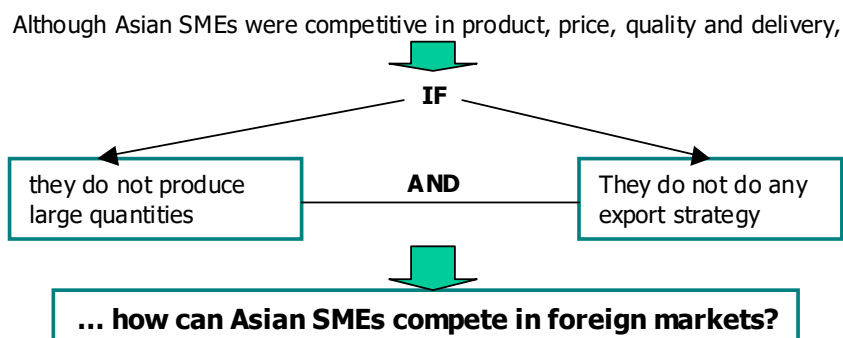
A SME should compete in something related to its business activity that must be appreciated by its target customers and in what it is different from their competitors. For this reason, the SME should use the differentiation focus strategy to compete in international markets. Following this strategy, the SME differentiate within just one or a small number of target market segments.

The purpose of the differentiation focus strategy is to be unique in a segment not in the total market, to be the only SME offering something different from competitors that satisfies the target customers. This is especially important in export because the SME exporter is new in the foreign market therefore is not known yet, in addition there are a lot of competitors that are already selling. In such conditions a new SME only can compete successfully if it offer something that nobody else offer and there are some customers that wanted it.

A successful example of differentiation focus strategy is the Spanish Inditex group, focused in textile manufacturing and selling through their own shops. It has several business activities lead to a specific market segment each of them. Inditex began its internationalization with one of their business activities known with the Zara brand and later it continued with the rest of business activities internationalization.

The Inditex differentiation lies on their own shop's styles, a different shop style for each business activity and different from competitors in each market segment.

If to be competitive is not enough to export, wow can Asian SMEs compete in foreign markets?



3. Culture as an element of Differentiation

SMEs must achieve differentiation with elements that are more conceptual than product, quality and price are. In this way, culture can be an important element to compete in foreign markets and to promote SMEs exports.

Culture has been amply defined because it is a multifaceted term used in most of the fields of social sciences. In this paper culture means a concrete and bounded world of beliefs and practices⁵ and, according to Kroeber, it consists of traditional ideas and especially their attached values⁶.

In this way, culture does not stand for "made in" but it could mean perhaps "do as in". Hence Asian SMEs should use culture as the core of their internationalization strategy to differentiate themselves from other countries competitors and achieve business in foreign markets.

Especially in the case of Asian SMEs which produce special goods with cultural elements inherent to them using traditional methods and try to sell them in foreign markets. As it is the case of Japanese Pottery for the Tea Ceremony that I will describe in more detail in the next point.

Culture is not only an element of differentiation for special goods with cultural elements inherent to them, but also allows SMEs and enterprises which produce ordinary goods, compete in foreign markets. It is the case of Shiseido, a big Japanese enterprise that manufactures cosmetics.

Shiseido was founded in 1872 as the first western-style pharmacy in Japan. It began its internationalization exporting to Taiwan in 1957, followed by Hawaii and other cities of the EEUU. In 1963 it started to export to Italy that was the first export to Europe.

Concerning the internationalization strategy followed by Shiseido to export to the European markets, I should emphasize that with the purpose of differentiate themselves Shiseido decided to target at only one market segment, the upper class, using the mentioned differentiation focus strategy. Later used several different brands to meet the preferences of the different segments of the market.⁷

⁵ Willian H. Seweel, Jr, The Concept(s) of Culture, pág 79

⁶ Kroeber

⁷ Mr. Yutaka Goto, Director of Shiseido Communications Centre for Europa, 2005. www.japansociety.org.uk

In 1981 it started to export cosmetics to Beijing and other locations of China and afterwards, between 1993 and 1999, did foreign direct investments (FDI) creating factories in Beijing and Shanghai. In 2002 it created a research centre in Beijing and one year later established in Shanghai a wholly owned subsidiary, Shiseido China, to supervise the business in China.

At the present time Shiseido sells in 71 countries around the world and from the beginning, because its strong research and development (R&D), Shiseido has been competing successfully in high quality of product and innovation in both local and foreign markets. Nevertheless, competitors had also developed high quality products and followed a continual process of research, therefore it has turned out difficult to compete only in the product characteristics value. For this reason, Shiseido should compete in other elements to keep their differentiation. Culture could be a key element for doing it.

In Asian countries is well-known the high level of service offered by Japanese enterprises and behind it lies the Japanese principle of hospitality (*omotenashi*)⁸ and respect. High level of service has become a Japanese cultural element that is not usual in other countries.

In 2008, Shiseido has established in Shanghai the Shiseido Training Centre China, with the purpose of educating its Chinese employees on the Shiseido's Japanese value of *omotenashi*. This trainee personnel will be the beauty advisors of Shiseido in the shops in China. Thus, Shiseido not only export high quality products but also the Japanese cultural principles of hospitality and respect.

To reinforce this cultural concept of Japanese service, in 2009 Shiseido established in Shanghai the Life Quality Beauty Center, the same as the one established in Tokyo in 2006. Services are provided in a private place so that customers can relax and learn with peace of mind and know how to use Shiseido cosmetics in the best way.

Finally, to add one detail in favour of the culture as an element to differentiate an enterprise, I will point out the fact that Shiseido's cosmetic marketing materials are used as educational material for modern Japanese history and culture courses provided at the Massachusetts Institute of Technology (MIT) in the EEUU.

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⁸ Omotenashi is one of the three corporate values of Shiseido. www.shiseido.co.jp/e/

4. Internationalization Strategy based on Culture: the case of Japanese Pottery for the Tea Ceremony

Now I will describe a case of SMEs Internationalization Strategy based on culture. It is the case of the SMEs located in the city of Shigaraki (Japan) that produce pottery for the tea ceremony and propound the importance of the cultural meaning inherent to these objects and the influence of Zen principles in them.

It was conducted research which an inductive approach since it tried to identify ways to internationalize a specific type of product instead of testing the relationship between variables according to existing theories.

The studied population represents the total universe of cases that is formed by the nine master artists located in Shigaraki city that comply with the required features: (1) produce pottery for the tea ceremony, (2) firing a type of kiln named Anagama that use wood as fuel and, (3) are well-known master pottery artists.

Qualitative techniques were used to collect information from both primary and secondary sources and to analyse the obtained data. For primary sources, the main technique used was in-depth interviewing of between 150 and 200 minutes long with each of the nine well-known artists who produce pottery for the tea ceremony in Shigaraki, as well as the direct observation in the workplaces of each artist. For secondary sources, relevant documentary sources were used such as literature related to this pottery, the specific documentation received from the artists and Shigaraki institutions and the information shown on their web site.

The period of data collecting lasted for one month during which time I lived in the study of one of the artists, participating in a firing with further three Japanese potteries and in another several activities.

The results obtained suggest that although the pottery for the tea ceremony is a special product with a cultural and local bias, is also able to be internationalized. Since there are five artists who export frequently but not regularly through galleries of art located mainly in the European Union (EU), the USA and countries from Pacific area (Australia, South Korea, Indonesia, Hong-Kong or Singapore). Nevertheless, before export can be achieved, information activities such as workshops, demos, kiln firings, classes, conferences, and articles, in Japan and in foreign countries should be carried out.

All the artists believe that there is a close and old relationship between the meaning and aesthetic of this pottery, the Tea Ceremony philosophy, the Zen principles, and the Japanese thought. In addition, they think that there is a relation between the export of this kind of pottery and the knowledge existing outside Japan of some aspects of the Japanese culture. In fact, it is necessary to have previous knowledge of the significance behind this pottery to know how to appreciate it.

This propound that the knowledge of some aspects of the Japanese culture, although unrelated to pottery for the Tea Ceremony, may increase the interest in this kind of pottery and promote its export.

Finally, the results proposed that to export this pottery like ordinary objects will not help to differentiate them and internationalize this part of Japanese culture.

This research has three limitations: one of them is that the results and conclusions can not be generalized because it has been focused on the specific case of pottery for the Tea Ceremony produced in Shigaraki whose investigated population was very limited. I will try to extend the research to other parts of Japan such as Bizen (Inbe. Okayama).

Another limitation is that the identified strategies for internationalization would not be suitable for most of the goods and services that are very similar to each other and are produced in large quantities. However, it can be used to internationalize other kind of goods or services with cultural characteristics similar to the pottery for the Tea Ceremony ones.

The third limitation is related to the many languages used in the interviews therefore, it could be possible that some of the cultural aspects can be difficult to transmit in foreign languages. Anyway, it should be recommended to have certain knowledge of Japanese culture and of this kind of pottery.

5. Conclusions

The purpose of this research was to contribute to the internationalization strategies knowledge. Despite the limitations, the work points out some aspects of the development of Asian SME's internationalization strategies, especially for goods and services with any cultural or native meaning that usually but not always are made in limited quantities by using traditional techniques.

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