

實現台灣中小企業通往全球國際化之軌道

Paths to Internationalization among Taiwan's small- to medium-sized firms: A global versus regional approach

譚彩鳳

經國管理暨管理學院健康產業管理研究所助理教授

gracie@ems.cku.edu.tw

Abstract

Small and Medium Size Enterprises (SMEs) have played a very important part in Taiwan's economic development. However, since 1986 there have been major changes in the macroeconomic environment in Taiwan. Large numbers of Taiwanese SMEs moved their operations overseas to low-cost production destinations. This paper will examine the motivation for internationalization among Taiwan's SMEs. It will analyze the current state of their overseas operations, their levels of internationalization, the business models adopted to develop overseas markets, and the problems encountered in trans-national marketing and management.

Keywords: internationalization, Small and Medium Size Enterprises (SMEs), motivation, overseas, low-cost

摘要

中小型企業一直在台灣的經濟發展過程中佔有非常重要角色。然而自1986年開始,台灣整個大環境有了很大的改變,有大部分的中小型企業開始追尋低成本的生產發展,而轉向海外投資設廠,這份研究主要是探討台灣中小型企業公司,向海外發展的動機與國際化的認知,並加以分析台灣中小企業轉往國際化之海外市場行銷模式及遇到國際貿易經營、管理等問題為主要核心。

關鍵詞: 國際化、中小型企業、動機、海外、低成本

Introduction

More recently, there has been a shift from interest in exporting per se, to understanding the processes and patterns that explain how smaller firms increase their international involvement over time. The purpose of this paper is therefore to review and assess contemporary empirical research specifically focused on SME internationalisation in order to consolidate the extant literature and generate meaningful research opportunities.

Taiwan's Small and medium-sized firms (SMEs) are increasingly active in international markets, thus contributing to economic growth and prosperity (Reynolds 1997). There has been a rapid economic development and its relatively equitable income distribution has been widely acclaimed. From the devastation of the Second World War, the small island of Taiwan successfully transformed itself from an underdeveloped, agricultural island to an economic power that is a leading producer of high-technology goods. Today Taiwan is at the forefront of the fastest growing region in the world and the island is the 15th largest trading nation in the world and is the United States' seventh-largest trading partner (Kao, 2000).

There has been a significant amount of research on small and medium sized enterprises (SMEs) but in all researchers have not been able to come out with a single definition. Different countries use different criteria to define its small and medium size enterprises. According to the Asia-Pacific Economic Cooperation (2003), "there is no consensus on the definition of SMEs and that small and medium sized enterprises definition differ widely in the APEC region and depend on the phase of economic development as well as their prevailing social conditions" (The APEC survey on SMEs). The APEC (2003) claims its member countries use different indexes to define its SMEs which include the number of employees, invested capital, total amount of assets, sales volume, and production capacity. In the United States, 700 definitions on small and medium sized enterprises were sent to the congressional committee (White, Bennet, & Shipsey, 1982). Morris and Brennan (2000) have stated that the contribution of small business to the economic development, job creation and the general health and welfare of economies domestically and internationally have made SMEs more recognized and very important throughout the world.

The impact of globalization on the growth and economic development of Taiwan cannot be understated. Since 1986 there have been major changes in the macroeconomic environment in Taiwan. Taiwanese government has been encouraging export activity, mostly due to limited resources and market size in Taiwan. Most of SMEs have embraced globalization which has resulted in the internationalization of most of these firms and government's orientation toward exports has produced numerous successful exporting firms. As a result, Taiwan today is renowned for its thriving SMEs (Chiao, Yang, & Yu, 2004).

Naturally, SMEs have played a very important part in Taiwan's economic development. Their strength has been the foundation for over 40 years of Taiwan's prosperity and growth. Many leading Taiwanese companies started out as SMEs. Today, small and medium sized enterprises account for about 97.8% of all firms in Taiwan and in addition to that, it employs 77.66% or 7.425 million of the working population. The sector therefore employs a greater number of the population since Taiwan's population is 23 million. Despite the sector's greater impact on employment, it only produced NT\$8.707 billion or 36.26% of the total sales as compared to the NT\$18.963 billion by the multinationals corporations in Taiwan (Siu, Fang, & Lin, 2004). It must be noted that small and medium size enterprises are the backbone of all economies both developed and developing countries and Taiwan is not an exception.

Taiwan's economy has in the light of globalization made a mark in the world economy, especially in the electronics sector. Today Taiwan is the third-largest global manufacturer of information technology equipment, behind only the United States and Japan. Taiwan's IT firms make 19% of all desktop PCs, more than 25% of all networking equipment, half of all laptops, 64% of all motherboards and 91% of the planet's scanners. Taiwan is also home to two of the world's largest made-to-order computer chip foundries (Kao, 2000).

Taiwan has embraced globalization to meet the growing competition in the global market and to expand their manufacturing operations through internationalization. SMEs operate under very competitive conditions and therefore only the most efficient survive.

Internationalization of Taiwan's SMEs

From a humble beginning in the 1950s—when Taiwan first started producing transistor radios—to the 1990s, there has been an enormous growth in the electronics sector which now includes an array of advanced products (Chuang, 1999). Among them are the various components of personal computers, advanced work stations and other microelectronic products. By the 1990s Taiwanese firms took their place among innovative designers of PCs, electronic notebooks, and circuit boards. During this time Taiwan also surpassed Great Britain to become

the fifth largest producer of semiconductors in the world. Exports of machineries and electrical equipment became the largest Taiwan's export commodity. In 2001, for example, exports in this sector amounted to \$66,851.5 million, or 54.4% of its overall exports (Taiwan International Trade Overview, 2005).

Research on the internationalization of small firms is ongoing. Wolff and Pett (2000) noted that with increasing global competition, falling barriers to international trade, and improved communication and information networks, many SMEs are pressed to compete at international level.

In addition, Taiwan's domestic market could absorb only a small portion of its total production. Foreign demand for low-cost manufacturing, particularly from western countries, prompted Taiwan to pursue export oriented manufacturing objectives which accounted for most of its production and rapid economic growth (Wong, et al., 2001).

The White paper report (Hua, 2004) on Taiwan's small and medium sized enterprises states that internationalization refers to the expansion of enterprise's products or activities into overseas markets. The beginning of the internationalization started as import and export which was driving the economic growth of Taiwan. Initially these small firms had arrangements with foreign marketing firms where the small firms in Taiwan will produce or manufacture and export to their marketing counterparts. However, this process was not profitable for the Taiwanese firms and as a result of high production costs these SMEs started searching for low cost countries where they could establish their production facilities and enjoy lower costs (Hua, 2004).

Lee and Chen (2003) in their study of Taiwanese firms' internationalization process also found that foreign investment decisions explicitly reflected considerations of other Taiwanese competitor's strategic maneuvers, including foreign investment actions. For example, a producer of computer peripherals DAPI experienced both cost pressure and capacity constraints while facing rapid growth from the booming global electronics and computer markets. As contract manufacturer the company was competing for a similar set of global players with other contractors and decided to expand their production capacities in foreign countries.

The literature on internationalization suggests that there is a close relationship between the degree of internationalization that a company has achieved and the level of experiential knowledge that it has managed to acquire (Hua, 2004). Thus, internationalization is a gradual process for SMEs. The Uppsala model explains internationalization of SMEs from developed countries as a gradual process as well (Sim et al., 2003). The business expansion towards internationalism is comprised of a series of incremental decisions, whose successive steps of increasingly higher commitments are based on knowledge acquisition and learning about the foreign market. The process starts with export to a country via independent representative or agent, followed by the establishment of sales and eventually production facilities in the host country. Uppsala model takes into account that the internationalization of the firm across many foreign markets is related to psychic distance (in terms of differences in language, education, business practices, culture, etc.). The initial entry is usually to a closer foreign market in terms of psychic distance, followed by subsequent entries in markets with greater psychic distances. In terms of entry mode, the initial entry is usually characterized by a low commitment mode and followed by progressively higher levels of commitment. According to Sim et al. (2003) the Uppsala model is generally supported by empirical research.

Hua (2004) supports and extends the Uppsala model. With the gradual increase of sales volume a firm that is marketing its own brand overseas will feel the need to establish its own

distribution network and will either invest directly in overseas subsidiaries or work through the distribution network of an agent. The tendency to initiate further investments in those markets will increase as an enterprise gets more familiar and gains experience in those markets. This will lead to a shift from agents towards joint ventures and ultimately to the establishment of a wholly owned subsidiary.

The above theories provide understanding and explanation of internationalization of enterprises from developing countries. However, Sim et al. (2003) claim that they are not complete in explaining Asian MNEs that exhibit somewhat different characteristics, motivations and paths from those of MNEs from developed countries. Specifically, these theories overlook the active role played by the state which often plays a direct role in the internationalization of its companies. In Taiwan, government policy has been to target strategic industries (IT industry, for example) and to encourage their development and internationalization. Thus, unlike the western states, Taiwan's government has played a very active and direct role in promoting the internationalization of its national firms, including SMEs.

Some claim that only large multinational companies can successfully compete in industries that combine extensive knowledge base and a high degree of internationalization. Small firms by definition have limited resources, lack of experience, and are unlikely to possess substantial ownership advantages because they are constrained in their capacity for knowledge creation and have a limited capacity to influence pricing and shape the development of markets, market structure, and technological change (Ernst, 2000). Anolova, Brush, Edelman, & Greene (2002) in their article on internationalization of small firms claim that SMEs face unique challenges not only because of their lack of experience and size but also because of their resource constraints. The disadvantages of small size for firms are compounded if they come, like in the case of Taiwan, from a small country. It would thus seem self-evident that small enterprises from a small country are ill-equipped to compete in the knowledge-intensive industries.

The experience of Taiwan's SMEs, however, tells a different story. Taiwan today boasts of the most broadly based computer industry in Asia after Japan. Many Taiwan IT companies have started out small; while many of them failed amidst intense competition created by numerous SMEs, a significant number of efficient and innovative companies were able to grow and to establish themselves as world-class suppliers for a variety of computer-related products, key components and knowledge-intensive services (Ernst, 2000).

Chiao et al. (2004) claim that because SMEs often lack the resources to engage in FDI directly, they usually pursue a strategy of incremental international expansion, adopting export as a starting point towards greater internationalization. In such a way exporting companies may gain economic benefits by means of economies of scale and scope, market power enhancement, and diversification of sources of revenues.

Hua in the White paper on SMEs in Taiwan (2004) illustrates other strategy that helped to offset Taiwan's SMEs their innate deficiencies. A number of enterprises started collaborating with leading international trading companies, foreign IPOs, and chains in a vertical division of labor. The usual scheme was for Taiwanese companies to provide foreign companies with cheap production which in turn took on responsibility for marketing and distribution. Although the profits that Taiwanese enterprises were able to make under this arrangement were not particularly high, it did make a significant contribution to Taiwan's economic development.

Large foreign multinationals have been outsourcing part of their production to low-cost suppliers in other countries. The resulting large number of contractual manufacturing

relationships has become the most common form of international strategic alliance. Original Equipment Manufacturing (OEM) and Original Design Manufacturing (ODM) orders from multinational companies have helped many Taiwanese SMEs to grow into large enterprises themselves (Hua, 2004).

Sim et al. (2003) support the claim that the internationalization of Taiwan electronics companies is mostly based on strategies of OEM manufacturing. At the beginning these enterprises capitalize on low domestic costs and flexibility to supply electronic components to the world markets. Upon erosion of this competitive advantage by rising domestic labor costs, they seek to maintain their competitive advantage by shifting to neighboring low cost countries with locational advantages. For example, Taiwanese electronics firm, EC, specializing in the manufacture of keyboards and notebook computers, in order to take advantage of cheaper location and more efficient logistics, moved production of keyboards to Thailand and China while the notebook PCs were left to Taiwan. Taiwanese electronics firm, EB, followed a similar strategy in its manufacture of monitor and telecommunications products. However, its overseas locations are spread beyond its Asian bases (Thailand and China) to Mexico and the U.K. The strategic positioning of the Mexican operation is to take advantage of its location advantage (cost and proximity to the U.S.) and cater to NAFTA markets. The U.K. location provides both an entry into the European market and a European base for its global logistics network.

Ernst (2000) states that relations with large multinationals have had an important impact on the development and growth of Taiwan's SME sector by facilitating knowledge sharing. The growing capital requirements and technological complexity that concurred with Taiwan's rapid economic and industrial transformation produced new form of business organization. When electronics became the leading industrial sector, overtaking textiles, traditional form of business organization in Taiwan - loose networks of family-owned SMEs - eroded. In order to retain profitability, family firms were forced to venture across product lines and to move from declining margins industries to the more profitable electronics sector (Ernst, 2000).

The process and mode of internationalization depends on the resources and commitment of the firm. Young (1990) declared that the internationalization of small firms is derived from globalization, which has brought about the fall of trade barriers among countries. Nummela, Saarenketo, & Puumalaninen (2004) affirm that the increasing awareness of global competition not only from multinational corporations but also from SMEs at a particular point in the firm's history helps to advance the cause of internationalization.

Taiwanese MNEs, however, have been late movers in globalization. Though the first firms have gone international since 1960s, the big drive for internationalization occurred only in the late 1980s. Thus, the competitive catch-up processes become very important for Asian MNEs. Some were able to leap big steps in the internationalization process and seemed to have moved rapidly since 1980s to capitalize on overseas manufacturing to enhance their competitiveness (Sim et al., 2003).

Beginning in the late 1980s Taiwanese SMEs were investing heavily in Southeast Asia, especially in Thailand and Malaysia. In the 1990s outward investments began favoring Vietnam and especially mainland China (Hua, 2004), which established four Special Economic Zones (SEZS) in the Southeast coastal region. A series of special economic policies were introduced by the Chinese government and created a favorable investment climate in the Eastern region that spurred capital flight into those regions (Sun et al., 1997). Most of the investment was going into labor-intensive industries. The decision of SMEs as to where to locate production was normally based on the availability of low-cost production factors (e.g., low wages, cheap land, government incentives); there was also a tendency to invest in

countries where the ethnic Chinese business network was strong, especially Southeast Asia and mainland China, which felt closer to "home" for Taiwanese entrepreneurs (Hua, 2004). Bonaccorsi (1992) also confirms that SMEs are increasingly active in international markets and network linkages are major contribution factors in the process of internationalization.

The utilization and role of ethnic networks in Taiwanese SMEs is characteristic features of Chinese businesses and their internationalization in Asia. According to Sim et al. (2003) cooperative activities in such networks are based on personal relationships (*guanxi*) which are usually ethnically linked. Similar cultural attitudes and heritage fosters the development of trust and cooperative behavior. These ethnic networks and ties provide knowledge and access to local markets, distribution systems, connections around local bureaucracy and business systems, as well as potential business partners and associates and even financing.

Lee et al. (2003) also found that the influence of a broadly defined network relationship played an important role in affecting a firm's entry decision and location selection. A big part of that role is the source of experiential information in terms of management, local laws and customs from the network relations could reduce a certain degree of external uncertainty for the entrant firm.

, Sim et al. (2003) claim that the internationalization of Taiwanese SEMs is strongly aided by their ethnic networks in the Asian region. The firms from their case study used their ethnic and other networks in their foreign operations. Taiwanese textile firm TA, for example, in addition to its extensive web of Taiwanese sub-contractors and suppliers in Taiwan persuaded a large number of them to go to overseas locations in China and Mexico with it. Taiwanese textile firm TB attributed a great deal of its success in the Philippines and China to its *guanxi* connection as personal connection of the owner led to the success of the first factory in the Philippines and subsequent establishments of two more factories. In China this firm relied on its connection with selected government owned firms to establish three joint venture factories.

Similarly, electronic firms in Sim's et al. (2003) study all had ethnic networks in Southeast Asia and China which they utilized for their overseas operations. In addition, those firms used strategic alliances that involve not only ethnic but also business partners. Taiwanese electronics firms have elaborate sub-contracting networks and put in resources to build strong global logistics networks and JIT (Just-in-Time) hubs to ensure efficient supply and distribution. Thus, the electronics firms have built efficient global logistics and supply networks to complement the competitive advantage of low cost production.

While exporting SMEs benefit economically from the lower cost of production as a result of scale and scope economies, the market penetration growth, and diversification of revenues, Chiao et al. (2004) argue that at some point the performance of SMEs engaged in internationalization begin to decline. When the expansion involves geographical diversification, challenges may arise from increasing coordination costs associated with managing export operations, the impact of managerial resources spread thinly across the expanded markets, and the information processing capabilities required of operations in markets with diverse cultures.

In the study of a sample of 1,419 Taiwanese SMEs in the electronics and textile industries Chiao et al. (2004) showed that internationalization does positively affect firms' performance. However, the relationship between SMEs' level of internationalization and performance demonstrates an inverted U-shaped curve, in which performance increases up to an optimal level of internationalization and this level performance begins to decline. The results of this study is consistent with other studies carried by Gomes and Ramaswamy (1999) and Hitt, Hoskisson, and Kim (1997).

Lee and Chen (2003) also argue that even though a firm can explore comparative advantages by relocating its business activities in foreign countries, environmental heterogeneity will require the company to accommodate local differences while maintaining the integration and global efficiency of resource utilization within its organizational context. The heterogeneities embedded in different national contexts require firms to exhibit a higher level of managerial capability to cope with the increasing organizational complexity under a wider geographic business scope. As this different business environment may not be within the firm's existing knowledge set, it takes time for the firm to learn how to adjust to different local conditions.

Lee et al. (2003) in their research of internationalization process of Taiwanese manufacturing firms found that the extent and degree of local adaptation that companies had experienced since entry into foreign market were far more challenging than expected and required different levels of managerial actions. Some of their cases needed adjustments at the operational level while others required redirection of the subsidiary's operation. For example, despite well-managed skill transfer by experienced teams, DAPI eventually found that the quality of parts supply available in Malaysia could not meet the company's minimum expectations. This significantly constrained production capacity and DAPI was forced to help its key suppliers to improve their manufacturing competence before they could fulfill international buyer's requirement.

Conclusion

Taiwanese SMEs have been crucial to the economic development of Taiwan's economy. Even though SMEs face challenges in terms of foreign competition they have been able to overcome this threat by looking for market elsewhere and also establishing plants in low cost labor countries to reduce production cost and enjoy economies of scale. The country as a whole has gain respect in the world market due to their involvement in the development and production of information technology related products. The electronics and plastic surge of the 1980s enabled SMEs to further their competitive advantages in product flexibility, productivity growth, utilization of subcontracting and a flat organizational structure. The result of all this is that these SMEs have achieved impressive results in their current efforts to develop overseas production and overseas marketing against the old system where production was done locally by local firms and marketing done in foreign markets by foreign counterparts.

As Taiwanese SMEs evolve and grow, particular attention needs to be paid to learning and accumulating new knowledge and expertise. The need to improve existing capabilities and to accumulate new knowledge is becoming critical for Taiwanese MNEs in an increasingly global market. Therefore, In relation to the research the complexity of the real and perceived world in which firms operate, and in which researchers should attempt to understand the internationalization of SMEs.

References

- Bonaccorsi, A. (1992), "On the Relationship Between Firm Size and Export Intensity," *Journal of International Business Studies*.
- Chang, C. (2005). Turning high tech into new venture: Government support through Taiwan's ITRI. *Tech Monitor*.
- Chiao, Y. C., Yang, K. P. & Yu, C. M. (2004). Performance, internationalization, and FSAS of SMEs in Newly-Industrialized Economies. *Academy of Management Proceedings, Best Conference Paper*, 1.
- Chuang, Y. C. (1994). The role of human capital in economic development: Evidence from Taiwan. *Asian Economic Journal*, 13, 117-145.
- Ernst, D. (2000). Inter-organizational knowledge outsourcing: What permits small Taiwanese firms to compete in the computer industry? *Asia Pacific Journal of Management*, 17(2), 223.
- Gomes, L., & Ramaswamy, K. (1999). An empirical examination of the form of the relationship between internationalization and performance. *Journal of International Business Studies*, 30, 173-188.
- Haahti, A.i, Hall, G. and Donckels, R. eds. (1998). *The Internationalization of SMEs: The Interstates Project*. London: Rutledge.
- Hitt, M. A., Hoskisson, R. E., & Kim, H. (1997). International diversification: Effects on innovation and firm performance in product –diversified firms. *Academy of Management Journal*, 40, 767 – 798.
- Horng, S. C., & Chen, S. C. A. (1998). Market orientation of small and medium-sized firms in Taiwan. *Journal of Small Business Management*, 36 (3), 79-86.
- Hua, Chung. (2004), *White paper on small and medium enterprises in Taiwan 2004*. Taipei, Taiwan: Ministry of Economic Affairs.
- Kao, R. Y. S. (2000, May 23). Taiwan's story: An entrepreneurial economy. Knight Ridder Tribune Washington Bureau.
- Lee, J. R., & Chen, J. S. (2003). Internationalization, local adaptation, and subsidiary's entrepreneurship: An exploratory study on Taiwanese manufacturing firms in Indonesia and Malaysia. *Asia Pacific Journal of Management*, 20 (1), 51.
- Morris, R. and Brennan, G. (2000). *Creating a seamless local government and small business interface for better regional economic development outcome*. Paper presented at the ICSB World conference 2000, Brisbane, Australia.
- Nummela, N., Saarenko, S., & Puumalaninen, K. (2002). A global mindset-Prerequisite for successful internationalization? *Canadian Journal of Administrative science*, 21(1), 51-64.
- O'Farrell, P., Wood, P. and Zheng, J. (1998), "Internationalization by Business Service SMEs: An Inter-Industry Analysis," *International Small Business Journal*, 17 (2), 37.

- Sim, A. B., & Pandian, J. R. (2003). Emerging Asian MNEs and their internationalization strategies - Case study evidence on Taiwanese and Singaporean firms. *Asia Pacific Journal of Management*, 20 (1), 27.
- Siu, W., Fang, W., & Lin, T. (2004). Strategic marketing practices and the performance of Chinese small and medium sized enterprises in Taiwan. *Entrepreneurship & Regional Development*, pp. 161-178.
- Sun, H., & Dutta, D. (1997). China's economic growth during 1984-93: A case of regional dualism. *Third World Quarterly*, 18, 843-865.
- Taiwan International Trade Overview. (2005). Washington State Taiwan Office. <http://www.washingtonstate.org.tw/English/taiwan-trade-economy/overview.htm>
Site accessed March 14, 2005.
- The APEC survey on SMEs, 2003.
- White, B., Bennet, R., & Shipsey, R. (1982). *Information and the small manufacturing firm. Report of a study of information use and needs in small manufacturing firms in the UK and the current pattern of information provision, funded by the British Library Research and development Department*. Edinburgh, United Kingdom: Capital Planning Information, Ltd.
- Wolff, J. and Pett, T. (2000). Internationalization of small firms: An examination of export competitive patterns, firm size, and export performance. *Journal of Small business Management*, 19, 117-143.
- Wong, Y., Maher, T. E., Wang, J. L., & Long, F. (2001) Exploring Taiwan's competitive advantages: Present and future. *Management Research News*, 24, 17-25.
- Young, S. (1990). Internationalization: Introduction and overview. *International Marketing Review*, 7(4), 5-10.