



SMEs and market access: opportunities and challenges

Japan and SMEs

Although Japan is usually associated with major corporate brands such as Toyota, Nissan, Sony, Toshiba, Panasonic, etc., over 99% of its registered companies are SMEs. Such large companies manufacture their products mainly by subcontracting to SMEs, which is why the percentage of the latter is high.

This is not specific to Japan. SMEs make up around 90% or more of registered companies worldwide and form the backbone of national economies whether in the manufacturing, trade, or service sectors. SMEs in Japan are also often referred to as the backbone of the industrial as well as social fabric of the country, as these companies, regardless of whether they are small or medium in size, provide the majority of jobs in the manufacturing and service sectors. It is thus not surprising that such SMEs would also venture into overseas markets to trade, invest, and sustain their businesses, while contributing to the development of the host countries. This is especially true today when Japanese SMEs are losing markets at home and need to seek new ones overseas. Such new markets can be found through a variety of channels, including: 1) networking through governmental or international organizations, embassies, or government offices overseas, including investment and trade promotion agencies; 2) web-based services (e-platforms); 3) international business missions; and 4) attending exhibitions/seminars domestically and abroad, to mention a few.

However, entering new markets is not an easy task. Like the APO, the Investment and Technology Promotion Office, Tokyo (ITPO Tokyo), of the UN Industrial Development Organization (UNIDO) works closely with SMEs. Specifically, the ITPO Tokyo fosters the business interests of Japanese SMEs in developing countries by introducing government windows/officials and assisting in business matching and project discussions, especially in the initial stages. Some opportunities and challenges facing SMEs when they venture into new markets are described below. The information is based on ITPO Tokyo's experience.

Opportunities and challenges

SMEs are usually quicker than larger companies, as their management is usually less complicated and bureaucratic. The president of an SME can quickly decide on a project if he or she is convinced of the benefits. Sometimes the decision can be immediate. However, even though the decision to trade or invest can be made swiftly, this does not mean that the SME will not face difficulties. SMEs are prone to many challenges in their business dealings. Some of the main advantages of SMEs are strength through independence, with a positive spirit; speed and efficiency; interest in business combined with a desire to contribute to the development of countries and communities; and the belief that long-term business is more important than immediate profit. Their disadvantages

are: limitations in staff and finance; little knowledge of foreign languages, cultures, laws, and regulations; interest in trading before investing to test the market; and, paradoxically, the belief that long-term business is more important than immediate profit.

Most of the advantages and disadvantages are self-explanatory and obvious at the outset of business negotiations. The belief that long-term business is more important than immediate profit is listed twice, showing that an advantage can also be a disadvantage. Sometimes this approach raises eyebrows on the recipient side, where businesses are more interested in discussing profits before long-term developmental benefits or management principles. This "profit-centered approach" of foreign companies sometimes causes problems for Japanese SMEs. In addition, lack of negotiation skills in a foreign language (usually English) also slows and distorts negotiations.

The following major factors are minimum requirements needed to make an SME's venture into a foreign market successful:

- 1) Visit and fact finding in the country;
- 2) Identification of government partnering organizations in the country, i.e., chamber of commerce, Investment Promotion Agency, board of investment (BOI), trade support agency, etc.;
- 3) Identification of a "window person" to assist locally;
- 4) Identification of a good business partner;
- 5) If relying on a local consultant, cross checking of inputs through government partner organizations;
- 6) Hiring of qualified interpreters;
- 7) Taking a flexible approach in business discussions; and
- 8) Relying not on handshakes but on binding agreements.

The most important item in the list above cited by SMEs is the identification of a reliable partner and/or window person or organization who can be contacted when issues are faced in setting up and operating a business. This type of resource seems in the long term to be more important than even financial or other resources. The following examples show successes and challenges encountered by real SMEs.

The right joint venture partner in Nigeria

An automotive waste management SME set up a joint venture in Lagos, Nigeria, in 2011 to start end-of-life auto recycling operations. The project was identified in cooperation with the National Automotive Council (NAC) of Nigeria. The SME was introduced to the right partner by the NAC and immediately signed a partnership agreement to develop this new market. Currently, a feasibility study on the project is underway. It is expected that the project will have an initial investment of US\$100,000 and create jobs for 100 workers.

The right window organization in Bangladesh

An SME in the textile industry invested in a joint venture in Bangladesh in 2010 to produce 500 metric tons of gray fabric. The project was promoted with the BOI of Bangladesh. The SME depended on the BOI for assistance with all registration processes and to address issues arising from discussions with labor, local communities, and authorities. The BOI staff's assistance became indispensable for the project's success. An initial investment of US\$186,000 led to the creation of 50 jobs, which have since increased to 450.

Stringent technical requirements by an SME

A pipeline engineering SME negotiated a joint venture project with a company in the Middle East in 2003. The project benefited from assistance by window organizations in Japan and the other country. However, the SME placed priority on the training of joint venture staff in Japan, which affected the project's success. As the SME was proud of its technical expertise, it wanted to ensure that the joint venture staff would be trained appropriately to ensure the quality of production and success of the project. The would-be partners could not agree upon the acceptable amount or length of training to be imposed, and eventually the discussions broke down.

All SMEs outlined above benefited from window organizations in the

countries they planned to work in. This is a fundamental tool for any successful project. The projects were affected by different factors, such as finding the right partner, assistance by the window organization, or focus on technical aspects of the project vs. the business opportunity when the latter was closer to the interest of the foreign partner. Thus it is essential to remember that whether SME projects are successful or not depends on the availability of good assistance, appropriate partners, and a flexible stance that considers the requirements of foreign partners, whether these are technical, pricing related, or other. 🌀

Contributed by Deputy Head Ferda Gelegen, UNIDO ITPO, Tokyo



Ferda Gelegen serves as Deputy Head, United Nations Industrial Development Organization (UNIDO), Investment and Technology Promotion Office, Tokyo. His work covers promotion of Japanese manufacturing industries, including SMEs, in developing and emerging countries. Before joining UNIDO in 1995, he studied business administration at George Washington University, Washington, DC, worked in the private sector in the USA, and later served on the Foreign Economic Relations Board of Turkey, where he advised on bilateral economic relations with the USA and Japan.