

Chapter 5

Internationalization Activities of Taiwan's SMEs

In general, if the internationalization of an enterprise is defined as “expansion of the enterprise’s products or activities to areas beyond the territory of its home country,” then the scope may extend from passive exporting (which carries the lowest level of risk, but also offers the least control over the market) or direct export to international licensing, international franchising, international strategic alliances, international joint ventures (IJV) and foreign direct investment (FDI), the highest level of internationalization activity. SMEs can select any of the above-mentioned methods to conduct their internationalization activity in accordance with their own strategic intent. In practice, there are two main methods for implementing internationalization activity: 1) undertaking internationalization in stages and 2) the “global start-up” strategy. What is meant by “implementing internationalization in stages” is starting from domestic production or marketing first and then moving up step by step in stages. Adoption of the “global start-up” strategy means that, when the enterprise is first organized, it is already focusing primarily on the global market, whether its activities start from exports or FDI. In the past, SMEs generally opted for a stage-by-stage approach to internationalization, perhaps because they felt they were not sufficiently familiar with international markets and international management. Today, however, this is no longer the case. Benefiting from the convenience of global communication, the development of the Internet, global regional integration and the dismantling of international trade barriers, SMEs have more opportunities than before to move toward internationalization. In the first part of this Chapter, we will examine the current state of internationalization of Taiwan’s SMEs, analyzing the impact of Taiwan’s SMEs on other countries (including direct exports, indirect exports, licensing agreements, franchising and overseas investment). These factors can serve as indicators of the level of internationalization achieved by Taiwan’s SMEs.

SMEs' internationalization activities will inevitably be affected by the strategic intent of the company's managers and by the firm's multinational strategy. Section 2 of this Chapter will therefore explore management's strategic intent and multinational strategy as well as the relationship with internationalization; a questionnaire survey is used to provide supporting data.

In recent years, more and more SMEs have begun to concentrate their attention on marketing activities. While building up their enterprise image and brand name at home, they have gradually extended the scope of their operations into international markets. Although the manpower and resources of SMEs are far smaller than those of large corporations, nevertheless, given the potential for reducing marketing costs through the adoption of new technology, it should still be possible for SMEs to gradually step up their international marketing activity. Section 3 of this Chapter focuses on the marketing resources available to SMEs, anticipating that the use of those low-cost marketing resources will help SMEs to increase their marketing capacity, establish a higher reputation, create more profits and develop a more forward-looking corporate vision. They can then go on to map out their international marketing strategy for the next stage.

I Internationalization of Taiwan's SMEs – Current Status

In this Section, we shall describe primarily the current status of internationalization of Taiwan SMEs. As stated above, SMEs may, in the process of internationalization, adopt either a stage-by-stage internationalization strategy or a global start-up strategy. Stage-by-stage internationalization involves starting from domestic production or marketing first, and then moving up step by step in stages. With the global start-up strategy, the enterprise is focusing primarily on the global market right from the start. If this strategy is adopted, the point of entry can be any type of activity, ranging from exportation to FDI. In the past, SMEs that were seeking to internationalize would normally adopt the stage-by-stage internationalization strategy. Regardless of the form of internationalization activity that the enterprise chooses to implement, the need to internationalize is something that all SMEs will have to face in the future. In this

section, we examine the current state of internationalization among Taiwan's SMEs, focusing on the following aspects: export value, licensing, franchising, joint ventures and direct investment.

1. Marketing, Domestic Sales, and Exports

Using total sales, domestic sales and export sales data based on Ministry of Finance Tax Data Center original business income tax data to compare the level of internationalization among SMEs and large enterprises, we note that the sales value of SMEs in 2004 accounted for 30.60% of the overall business sales value for all enterprises; SMEs' domestic sales value accounted for 35.82% of the overall business domestic sales value for all enterprises, while SMEs' export value accounted for 16.91% (Table 2-1-1) of the overall export sales value for all businesses. It is clear that, in comparison with large corporations, domestic sales remained the main focus of SMEs' management and operational activities. If one considers export inclination (export value / total sales value), it can be seen that the overall export inclination for all businesses stood at 26.50% while for SMEs it was 15.25% (Table 5-1-1). The manufacturing sector displayed the highest export inclination, at 21.21%, while the service sector had the lowest export inclination, at 9.73%; this is related to the indivisibility of production and consumption that often characterizes service sector enterprises, making for lower levels of exportation. Examination of export inclination over the period 2001 to 2004 shows that it appears to have been declining, down from 19.01% to 15.25%. The overall level of export inclination in 2004 was roughly the same as in 2003; export inclination rose in the agricultural and manufacturing sectors, while falling in the service sector.

Table 5-1-1 Export Inclination of SMEs by Sector, 2001–2004

Unit: %

Year \ Sector	Total	Agriculture	Manufacturing	Service
2001	19.01	15.31	18.54	19.36
2002	18.02	15.46	18.96	17.41
2003	15.25	13.70	21.15	10.13
2004	15.25	15.80	21.21	9.73
2004 domestic sales as multiple of export sales	5.56	5.33	3.71	9.28

Note: Export inclination = export sales / total sales.

Source: Compiled from Ministry of Finance Tax Data Center business income tax data (original data) for 2001–2004.

2. Licensing Agreements and Franchising

Internationalization can also be analyzed by looking at firms' licensing agreements and franchising activities. In this section, we use data for the manufacturing sector compiled by the Department of Statistics, Ministry of Finance. Table 5-1-2 shows the main forms that investment in overseas operations by Taiwanese enterprises took in 2004. On the whole, overseas investment by the manufacturing industry as a whole was implemented primarily through cash investment; this was true for 85% of SMEs that invested overseas, and for 93% of large enterprises that did so. Compared with 2003, these percentages increased by 2.55% in the case of small enterprises and by 2.70% in the case of large enterprises; only that for medium-sized enterprises was there a decrease of 0.46%. In 2004, 47.93% of enterprises implemented investment in overseas operations through the provision of machinery or equipment. In comparison with 2003, this percentage increased by 4.97% in the case of large enterprises, while for both small and medium enterprises it declined. In 2004, the percentage of enterprises that undertook investment in overseas operations in the form of providing raw materials, components, semi-finished products or finished products stood at 23.35%.

Table 5-1-2 The Main Forms of Investment Used by Taiwanese Manufacturing Enterprises Investing Overseas

Unit: %

Scale \ Form	Cash	Machinery & equipment	Raw materials, components, semi-finished products or finished products	Patent or technology on cash terms	Other
2003 survey	87.47	50.00	25.43	4.86	0.86
Small enterprises	82.45	55.09	33.02	5.09	0.47
Medium enterprises	94.12	47.39	17.97	3.59	0.98
Large enterprises	94.24	40.53	13.58	5.14	1.65
2004 survey	90.27	47.93	23.35	4.68	0.69
Small enterprises	85.00	51.46	31.88	5.63	0.42
Medium enterprises	93.66	41.99	16.01	2.72	0.60
Large enterprises	96.94	45.50	13.58	4.24	1.19
Increase or decrease in percentage in 2004 compared with 2003 survey					
Manufacturing industry as a whole	2.80	-2.07	-2.08	-0.18	-0.17
Small enterprises	2.55	-3.63	-1.14	0.54	-0.05
Medium enterprises	-0.46	-5.40	-1.96	-0.87	-0.38
Large enterprises	2.70	4.97	0.00	-0.90	-0.46

Note: Respondents were allowed to tick more than one form of investment.

Source: Ministry of Economic Affairs, Survey on Overseas Investment by Manufacturing Industry in the Taiwan Region, ROC, 2003 and 2004.

Compared to 2003, the percentage declined for both small and medium enterprises. Only about 5% of enterprises undertook investment in overseas operations that took the form of providing patents or technology; compared to 2003, the percentage increased slightly in the case of small enterprises, but decreased in the case of medium-sized and large enterprises. It can thus be seen that, regardless of enterprise size, cash investment is the most common form of investment in overseas operations, with investment in the form of patents or technology being the least common.

3. Joint Ventures

Continuing our analysis of overseas investment by the manufacturing sector, if we compare the survey results for 2002, 2003 and 2004 as shown in Table 5-1-3, we can see that, in the case of SMEs, the percentage of enterprises whose overseas operations took the form of a wholly-owned subsidiary was highest in 2003 and lowest in 2004, when it was approximately 63.56%. The 2004 survey indicated that the percentage of firms investing overseas that used wholly-owned subsidiaries had declined, and that this was true of both SMEs and large enterprises. In the case of SMEs, the percentage declined by 6.67%. By contrast, the share of enterprises making use of joint ventures rose from 32.67% in 2003 to 36.44% in 2004. The percentage of enterprises using joint ventures was higher among SMEs than among large enterprises. It can thus be seen that the percentage of enterprises in the manufacturing sector that used a “partnership” arrangement to invest overseas increased in 2004. If one breaks Taiwanese industry down into four major industry categories, we can see that the use of wholly-owned subsidiaries for overseas investment was most common among companies in the information and electronics industry (72.63%), and least common in the chemical industry (55.49%). If the industry breakdown is based on the type of activity being undertaken, then the use of wholly-owned subsidiaries can be seen to be most common among enterprises engaged in processing operations (67.27%), and least common among those engaged in materials production (42.03%). Overall, Taiwanese companies still prefer to undertake overseas investment through the medium of wholly-owned subsidiaries.

As regards disparities between enterprises investing in different regions of the world, the use of wholly-owned subsidiaries was most common among enterprises investing in Western Europe, followed by China, Hong Kong and the US. The use of

joint ventures was most common among enterprises investing in Southeast Asian nations such as Indonesia, Malaysia, Singapore, and Vietnam. Collaboration with local companies was most common among Taiwanese enterprises investing in Japan. Overall, China was the main target for Taiwanese manufacturing enterprises investing overseas in 2004; the number of enterprises investing in China grew, whereas the number investing in other regions declined.

Table 5-1-3 The Main Forms of Ownership Arrangement Taken by the Overseas Operations of Taiwanese Manufacturing Enterprises

Unit: %

Scale \ Form	Wholly-owned subsidiary	Joint venture			
		In cooperation with a foreign enterprise	In cooperation with a local enterprise	In cooperation with a Taiwanese enterprise	In cooperation with individual Taiwanese business people
2002 total	64.84	10.09	9.68	12.17	10.23
Small enterprises	61.39	—	—	—	—
Medium enterprises	65.80	—	—	—	—
Large enterprises	69.81	—	—	—	—
2003 total	67.33	9.67	9.72	12.04	9.61
Small enterprises	65.00	—	—	—	—
Medium enterprises	66.99	—	—	—	—
Large enterprises	72.63	—	—	—	—
2004 total	63.56	9.84	8.30	10.59	7.18
Small enterprises	60.73	9.17	7.50	11.46	9.27
Medium enterprises	66.16	7.85	11.18	9.37	6.04
Large enterprises	66.72	12.05	7.98	9.85	4.41
Major areas of investment	W. Europe	Singapore	Japan	Indonesia	Indonesia
	Mainland China	Japan	Indonesia	Vietnam	Thailand
	Hong Kong	Malaysia	Thailand	Singapore	Malaysia

Note: Respondents were allowed to tick more than one form of operation.

Source: Ministry of Economic Affairs, Survey on Overseas Investment by Manufacturing Industry in the Taiwan Region, ROC, 2002, 2003 and 2004.

4. Wholly-owned Subsidiaries

As indicated by Table 5-1-3, wholly-owned subsidiaries remained a very common form of overseas investment among Taiwanese manufacturing firms; they were particularly widespread in terms of investment in Western Europe, China and Hong Kong. In the late 1980s, many Taiwanese SMEs began to set up factories in Southeast Asia – particularly Thailand and Malaysia – in line with the government’s “Go South” policy. However, from the 1990s onwards, Vietnam and China became the main

places for overseas investment. Generally speaking, the industries that moved production overseas were labor-intensive industries with products in the mature stage of the product lifecycle that offered little potential for upgrading; in some cases, the industry was already in decline in Taiwan. As such, the main places for investment were countries with relatively low production costs: countries that offered abundant cheap labor, easy access to land and factory buildings, and government incentive programs to encourage investment. Taiwanese SMEs also preferred to invest in areas with a large ethnic Chinese business community; the most popular targets were Southeast Asia and China, which to Taiwanese businesspeople “feels” close to home. China, with its huge, rapidly-growing market, became the single most popular location for Taiwanese overseas investment.

As noted above, the percentage of Taiwanese SMEs investing overseas declined in 2004, in both the large enterprise and SME segments. The decline was 4.27 percentage points in the case of SMEs, and 5.91 percentage points in the case of large enterprises. If the level of investment in wholly-owned subsidiaries overseas (i.e. foreign direct investment, or FDI) is taken as a proxy for internationalization activity among Taiwan’s SMEs in 2004, then it can be seen that such activity weakened in 2004.

To summarize the above, we have compiled Table 5-1-4 to show the performance of Taiwan’s SMEs with respect to various aspects of internationalization activity. While the number of enterprises undertaking overseas investment in the form of wholly-owned subsidiaries declined, the number doing so through the use of licensing agreements and joint ventures increased. The figures for domestic sales and export sales both show an increase; moreover, the export inclination remained unchanged. Overall, the vitality of Taiwan’s SMEs with respect to internationalization activity increased slightly.

Table 5-1-4 Vitality of Taiwanese SMEs with Respect to Internationalization Activity According to 2004 Survey Data

Internationalization process	Domestic sales (amount)	Direct exports (amount)	Export inclination	Overseas licensing & franchising (number of firms)	Overseas joint ventures (number of firms)	Wholly-owned subsidiaries overseas (number of firms)
Annual growth rate	Up	Up	Unchanged	Up	Up	Down
Internationalization index	—	—	—	V	V	—

Note: V indicates a positive impact upon internationalization; — indicates no impact or a negative impact.

II The Relationship between a Company's Strategic Intent and Internationalization

1. The Impact of Company Characteristics and Globalization Pressure on Market Entry Policy

In general, the strategic intent and special characteristics of a firm affect the internationalization strategy that it adopts. Management's global vision can also have a major impact on the company's business strategy. Table 5-2-1 lists the possible relationships between the strategic intent of management and the internationalization process. When it comes to strategic intent, profit may not be the short-term goal of a firm, even though the ultimate goal of a business is to seek profit. For some firms, the market entry strategy is based on the desire to acquire new technology while, for others, the motive is to be one of the first companies to get a foot in the door in that market. Many of the international companies that have invested in China over the years (such as Motorola) realized right from the start that it might be some time before their China operations became profitable; nevertheless, by spending time to develop the market, they were able to develop an in-depth knowledge of the Chinese market, and gain a better understanding of how local companies operated. If a company's strategic intent is to gain a clearer understanding of market needs, then a joint venture or FDI strategy will be most appropriate for them. If the strategic intent of an enterprise is merely to secure short-term profits, then direct or indirect exportation would be the most suitable strategy. Joint ventures and FDI will be more feasible for firms with abundant resources; if a company is able to exercise significant control over the market, then it will be in a better position to implement joint ventures or FDI. Table 5-2-1 depicts the relationship between a firm's characteristics and entry strategy.

Strategic intent is obviously very important for SMEs when embarking on internationalization. If an SME is in a relatively weak position financially, then short-term profit will be an important goal. This explains why exportation is the main form of internationalization activity for so many SMEs.

As regards internationalization pressure, as shown in Table 5-2-2, when a firm finds itself under relatively high internationalization pressure, if its competitive

advantage lies in the upstream segment of the value chain, then a transnational strategy would be its optimal choice. If an enterprise is under heavy localization pressure and its competitive advantage lies in the downstream segment of the value chain, then a multi-location strategy would be recommended.

Table 5-2-1 The Decision-making Matrix for the Formation of Entry Strategy

Reason		Entry strategy				
		Direct exports	Indirect exports	Licensing and franchising	Joint ventures	FDI
Strategic intent	To understand the market			V	VV	VVV
	To acquire short-term profit	VVV	VVV	VV	V	V
Company resources	Financial issues are paramount	VV	VVV			
	In possession of international experts				VV	VVV
Host nation government	Investment incentives				VVV	VVV
Products	Not easy to transport		V	V	VV	VVV
	Easily pirated			VV	V	VV
Culture	Huge cultural difference between the two markets	VV	V	VV	VVV	V
Market control ability	High				V	VVV
Risk	Low	VVV	VVV	VV	V	V

Note: VVV indicates the strategy is highly appropriate; VV appropriate; V marginally appropriate.

Source: J.B. Cullen (2000), *International Business Management*; Cincinnati, Ohio: South-Western Thomson Learning.

Table 5-2-2 Relationship between Globalization Pressure and Multinational Strategy

Globalization/Localization pressure	Major competitive advantage in the value chain	
	Upstream	Downstream
High globalization pressure	Transnational strategy or international strategy	Regional strategy, compromise strategy
High localization pressure	Regional strategy, compromise strategy	Multi-location strategy

Source: J.B. Cullen (2000), *International Business Management*; Cincinnati, Ohio: South-Western Thomson Learning.

2. Room for Improvement with Respect to Cross-cultural Management and Attitudes towards Internationalization

Table 5-2-3 analyzes the difficulties that firms experience in their overseas operations, with the aim of gaining a clearer understanding of the nature of internationalization pressure. Apart from fierce competition in the marketplace, the difficulties that have caused most difficulty for these Taiwanese enterprises have been rising labor costs and securing financing. One point worth noting is the widespread feeling that differences in social customs and ways of doing business can be an important obstacle

to the development of overseas operations. This problem appears to apply all over the world, including the US, Western Europe and Japan. Bearing in mind that these three regions have reached a higher level of internationalization than any other part of the world, it appears that there is still room for improvement among Taiwanese enterprises in terms of cross-cultural management capabilities and attitudes towards internationalization.

Table 5-2-3 Difficulties Faced by the Primary Overseas Operation of Taiwanese Manufacturing Enterprises

Difficulty	No. 1	No. 2	No. 3	No. 4	No. 5
China	Fierce competition in the marketplace	Ineffective local administration hinders cooperation	Difficulties with capital transfer or borrowing	Strict controls on sales in the local market	Unstable local political and economic situation
USA	Fierce competition in the marketplace	Rising local labor costs	Difficulties with capital transfer or borrowing	Other	Different social customs and business practices
Hong Kong	Fierce competition in the marketplace	Strict controls on sales in the local market	Difficulties with capital transfer or borrowing	Different social customs and business practices	Ineffective local administration hinders cooperation
Vietnam	Difficulty in negotiations due to language barrier	Fierce competition in the marketplace	Different social customs and business practices	Difficult to access related materials & equipment	Ineffective local administration hinders cooperation
Thailand	Difficulty in negotiations due to language barrier	Fierce competition in the marketplace	Unstable local political and economic situation	Difficulties with capital transfer or borrowing	Ineffective local administration hinders cooperation
Malaysia	Fierce competition in the marketplace	Rising local labor costs	Different social customs and business practices	Ineffective local administration hinders cooperation	Difficulties with capital transfer or borrowing
W. Europe	Fierce competition in the marketplace	Rising local labor costs	Difficulties with capital transfer or borrowing	Difficulty in negotiations due to language barrier	Different social customs and business practices
Japan	Fierce competition in the marketplace	Different social customs and business practices	Ineffective local administration hinders cooperation	Difficulties with capital transfer or borrowing	Strict controls on sales in the local market
Indonesia	Unstable local political and economic situation	Fierce competition in the marketplace	Rising local labor cost	Ineffective local administration hinders cooperation	Difficulty in negotiations due to language barrier
Singapore	Fierce competition in the marketplace	Difficulties with capital transfer or borrowing	Rising local labor cost	Ineffective local administration hinders cooperation	Difficult to access related materials & equipment

Notes: 1. This table is based on 2004 survey data.

2. Bold letters indicate replies given by 20% or more of respondents.

Source: Ministry of Economic Affairs, Survey on Overseas Investment by Manufacturing Industry in the Taiwan Region, ROC, 2003 and 2004.

3. Analysis of Motives for Overseas Investment by SMEs

Despite the problems that internationalizing SMEs experience due to limited financial resources or limited manpower, many SMEs continue to demonstrate immense

enthusiasm for internationalization. To overcome the barriers that SMEs face when seeking to enter global markets, international business theorists emphasize the importance of fostering an “internationalization culture” among SMEs that can serve as the foundation for developing global markets. What is meant by an “internationalization culture” is that both managers and employees must think globally when considering the business opportunities available to the enterprise and that, within the organization, international experience is shared through organizational learning so as to build up a corporate culture with a global outlook. However, when it comes to implementation, the key factor that will determine whether the business can move successfully toward internationalization remains the characteristics of the enterprise’s senior managers, including how difficult senior managers feel it will be to develop overseas markets, their international experience, how risk-averse they are, and their willingness to develop strategies that are international in scope. Since the existing information we have on hand does not include questionnaire surveys targeting senior managers, all we can do at present is to infer what companies’ motives for overseas investment are likely to be.

In the past, the motives for investment by Taiwanese SMEs in Southeast Asia or China could be reduced to the following key factors: low labor costs, the opportunity to expand production capacity, responding to pressure from customers, building a cost advantage, developing new markets, spreading risk, accessing new production resources, and experimenting with new business areas. For those who opted to invest in North America or Europe, the primary motives were to develop an advantage in the areas of technology and information, differentiate their products from those of competitors, and spread risk. In recent years, the investment environment in China has changed, with labor costs starting to climb, and this appears to have had an impact on companies’ motivation for investing overseas. The results of surveys undertaken in 2002, 2003 and 2004 indicate that the main motives for overseas investment were more or less the same in all three years; the five most common given motives were: “huge potential for local market development,” “abundant cheap local labor pool,” “responding to overseas customers’ needs,” “investing in areas where Taiwanese customers have migrated,” “worsening business climate in Taiwan,” and “ready availability of land for factory construction.” The following points are worth noting:

First, “huge potential for local market development” has replaced “abundant

cheap local labor pool” as the main motivation for overseas investment. The 2004 survey results indicated that the most important motive for manufacturing industry to invest overseas was the “huge potential for local market development;” this was given as a motive by 63.35% of enterprises, as compared to the 55.21% of enterprises listing “abundant cheap local labor pool” as a motive. This increased emphasis on developing the local market is reflected in the sales destinations of the products of Taiwanese enterprises’ overseas operations. As can be seen from Table 5-3-4, the share of the total output of Taiwanese enterprises’ overseas operations that is sold in the local market has risen dramatically; 48.79% of output is sold locally, with only 16.64% being shipped back to Taiwan. In comparison with 2003, sales in the local market grew by 64.21%, which was higher than the rates of growth for exportation to overseas markets and shipment back to Taiwan. Clearly, Taiwanese enterprises investing overseas are now focusing more on the local market in the areas in which they have invested.

Second, there is the importance of network relationships. Network linkages, or in other words the internationalization of firms within the production network, is often one of the most important factors contributing to the internationalization of Taiwan’s SMEs. The competitive advantage of Taiwanese businesses in the international market is derived mainly from the division of labor among Taiwan’s SMEs, a flexibility based on mutual support, and the network relationships that arise out of this. Through network linkages, technology and capital are combined, helping companies to respond more rapidly to changes in market demand. Due to the desire to minimize risk, the need to adapt to the special characteristics of the host country, and the high level of uncertainty that characterizes decision making in the area of overseas investment, Taiwanese SMEs often adopt a production internationalization model based on networks, either through the extension of existing networks, or by moving production overseas in concert with other SMEs. This enables enterprises to make the most efficient use of the intra-industry division of labor and of their own in-house resources. We can see from Table 5-2-4, which shows the motivation for overseas investment by manufacturing enterprises, that “responding to foreign customers’ needs” and “investing in areas where Taiwanese customers have migrated” have both ranked among the top five motives in the last three years, both for medium-sized enterprises and small enterprises. One can deduce from this that internationalization through the

operation of network relationships is still very common among Taiwanese SMEs.

Table 5-2-4 Motivation for Overseas Investment by Taiwanese Manufacturing Enterprises, 2004

Motivation Scale	No. 1	No. 2	No. 3	No. 4	No. 5
2002 survey	Huge potential for local market development (63.55%)	Abundant cheap local labor pool (62.76%)	Worsening business climate in Taiwan (36.08%)	Responding to foreign customers' needs (33.36%)	Investing in areas where Taiwanese customers have migrated. (27.19%)
2003 survey	Abundant cheap local labor pool (63.34%)	Huge potential for local market development (62.31%)	Responding to foreign customers' needs (35.38%)	Worsening business climate in Taiwan (28.51%)	Investing in areas where Taiwanese customers have migrated. (25.70%)
2004 survey	Huge potential for local market development (63.35%)	Abundant cheap local labor pool (55.21%)	Responding to foreign customers' needs (36.65%)	Investing in areas where Taiwanese customers have migrated. (25.85%)	Worsening business climate in Taiwan (22.02%)
By the size of domestic business					
Small enterprise	Huge potential for local market development (57.40%)	Abundant cheap local labor pool (56.77%)	Responding to foreign customers' needs (36.77%)	Worsening business climate in Taiwan (29.38%)	Investing in areas where Taiwanese customers have migrated. (28.75%)
Medium enterprise	Huge potential for local market development (69.18%)	Abundant cheap local labor pool (48.04%)	Responding to foreign customers' needs (36.25%)	Investing in areas where Taiwanese customers have migrated. (24.77%)	Easy access to local land (16.31%)
Large enterprise	Huge potential for local market development (69.78%)	Abundant cheap local labor pool (56.71%)	Responding to foreign customers' needs (36.67%)	Investing in areas where Taiwanese customers have migrated. (21.73%)	Easy access to local land (15.45%)

Notes: 1. Respondents were allowed to give more than one motive for investing overseas.

2. The figures in parentheses are the percentages of enterprises reporting that particular motive.

Source: Ministry of Economic Affairs, Survey on Overseas Investment by Manufacturing Industry in the Taiwan Region, ROC, 2003 and 2004.

Third, the importance of the “worsening business climate in Taiwan” as a factor behind overseas investment has declined. In the 2002 survey, the “worsening business climate in Taiwan” ranked as the third most commonly listed motivation for overseas investment, but fell back to fourth place in 2003 and fifth place in 2004. This change in ranking reflects an improvement in the business environment in Taiwan.

The 2004 survey results suggested that the state of the domestic business environment in Taiwan is not a significant source of motivation for overseas

investment among medium-sized and large enterprises; ready availability of land for factory construction was a more important source of motivation for these enterprises. This may be related to the fact that medium-sized and large enterprises generally require a much larger area of land for factory building than do small enterprises.

4. The Transnational Management Model Employed in the Overseas Operations of Taiwan's SMEs

The management models and attitudes adopted by Taiwanese SMEs when establishing overseas affiliates are reflected in the relationship between the overseas affiliate and the parent company.

(1) Division of Labor

The discussion in this section focuses on the manufacturing sector. It can be seen from Table 5-2-5 that finished products manufactured in Taiwan are mainly high-grade products, with a wide variety of different products. For some (approximately 11.38%), however, the quality of the products manufactured by the overseas operation and those manufactured by the Taiwan parent company is exactly the same. As regards the division of labor between the overseas operation and the Taiwan parent company, a horizontal division of labor is most common. That is to say, the domestic and overseas operations produce more or less the same products, but the Taiwan-made products are of higher grade; a division of labor of this type was adopted by 13.38% of enterprises. A vertical division of labor normally still takes the form of the domestic operation manufacturing components or semi-finished products that are shipped to the overseas operation for assembly into finished products; 7.07% of enterprises used a division of labor of this kind.

(2) The Level of Autonomy Enjoyed by the Overseas Operation with Respect to Marketing

According to the results of a 2004 survey of the marketing methods employed by the overseas operations of Taiwanese business enterprises (Table 5-2-6), approximately 60% of Taiwanese enterprises that have invested overseas market their products directly through the overseas operation; this ratio has been rising steadily, climbing

from 58.41% in 2000 to 61.91% in 2003. The next most common marketing strategy is for the Taiwan parent company to be responsible for marketing; this is true in approximately 50% of cases, and the percentage has remained more or less unchanged. Other strategies – such as marketing through a local company, marketing through another Taiwanese company (i.e. a trading company), or marketing through a company based in a third country, were all much less common; none of them was used by more than 20% of enterprises.

Table 5-2-5 The Relationship between the Products of Taiwanese Parent Companies and Those of Their Overseas Operations

Relationship	Scale	2003 total	2004 total	Size of domestic business		
				Small enterprise	Medium enterprise	Large enterprise
The same types of finished products are produced at both locations, but the Taiwan-made products are of higher grade.		18.47	13.88	13.44	12.69	15.28
Product quality is the same, but the Taiwan parent company manufactures a wider variety of different products.		14.47	11.38	8.23	11.78	16.30
The products manufactured by the Taiwan parent company and the overseas operation are different; those manufactured by the Taiwan parent company have higher value-added.		9.50	12.66	8.65	15.11	17.83
Product types and product quality are exactly the same.		10.64	10.90	12.60	11.78	7.64
The Taiwan parent company produces components and semi-finished products, while the overseas operation assembles these into finished products.		12.20	7.07	6.15	6.34	9.00
Product quality is the same, but the overseas operation manufactures a wider variety of different products.		8.26	5.16	6.98	3.93	2.89
The overseas operation produces components and semi-finished products, while the Taiwan parent company assembles them into finished products.		5.02	2.45	2.50	3.02	2.04
Both the Taiwan parent company and the overseas operation manufacture components, but for different product types.		4.00	2.82	2.19	5.141	2.55
The products manufactured by the Taiwan parent company and the overseas operation are different; those manufactured by the overseas operation have higher value-added.		1.57	1.49	1.88	1.51	0.85
The same types of finished products are produced at both locations, but the products manufactured by the overseas operation are of higher grade.		0.49	0.53	0.52	0.91	0.34

Note: Respondents were permitted to select more than one type of relationship.

Source: Ministry of Economic Affairs, *Survey on Overseas Investment by Manufacturing Industry in the Taiwan Region, ROC, 2004*.

The percentage of enterprises marketing directly through their overseas operation and the percentage marketing through a local company were higher in 2004 than in any previous year. Adopting this kind of strategy can help Taiwanese businesses to develop the local market, secure access to local distribution channels, and obtain local market information. The increase in the share of enterprises using these strategies

reflects the fact that Taiwanese enterprises have begun to focus more on the local market in the countries where their overseas operations are located; it corroborates the findings noted above regarding the greater emphasis on local market development.

Table 5-2-6 Marketing Methods Used by the Main Overseas Businesses of Taiwanese Manufacturing Enterprises in 2004

Unit: %

Year of survey	Item	Marketing handled directly by overseas business	Marketing handled by Taiwan parent company	Marketing through local enterprise	Marketing through other Taiwanese enterprise	Marketing through an enterprise of a third country	Marketing through an affiliate in another area
2000		58.41	51.89	17.12	9.57	7.92	5.95
2001		60.34	49.37	15.07	7.46	7.66	3.56
2002		61.78	51.69	15.90	7.16	6.88	4.23
2003		61.91	55.37	17.23	6.65	5.64	5.27
By the size of the business							
	Small enterprise	61.25	55.94	16.04	7.81	7.60	5.10
	Medium enterprise	60.12	52.27	23.26	5.74	3.93	5.14
	Large enterprise	64.01	56.20	15.79	5.26	3.40	5.60

Note: Respondents were permitted to list more than one marketing method.

Source: Ministry of Economic Affairs, *Survey on Overseas Investment by Manufacturing Industry in the Taiwan Region, ROC, 2004*.

III Analysis of SME Marketing Models and Resources

Generally speaking, SMEs are characterized by the ability to rapidly respond to changing circumstances, a strong entrepreneurial spirit, drive, flexibility and ability to spread risk. In the past, SMEs have been primarily engaged in manufacturing, particularly OEM. As a result, they have relatively weak marketing capabilities, for example with respect to market development and brand development. They also find it difficult to secure control over distribution channels, and to monitor changes in consumer demand. As a result, profit margins for Taiwan's SMEs have tended to be very low.

For most SMEs, the most serious problems are small size and limited capital. These limitations have made it difficult for SMEs to achieve much in the area of marketing (such as developing their own brand or implementing effective advertising). Recently, however, with the advances in marketing technology and the improvement in overall marketing infrastructure, SMEs have become more aggressive in their

marketing efforts.

One example of successful marketing by a Taiwanese enterprise is BenQ, which signed an agreement with UEFA to provide IT equipment for the 12th European Championship, which was held in Portugal in 2004. During the competition, the BenQ brand and the purple BenQ logo could be seen everywhere on the streets of Portuguese cities, helping to boost brand recognition for BenQ in Europe. Another example is Franz, a leading gifts supplier. In the past, Franz has undertaken OEM production for many leading international brands; Franz became noted for its superior design and product quality, and for its successful market segmentation and pricing strategy. In the space of just two years after Franz went public in 2002, it had established itself as a leading brand in its own right, achieving an impressive degree of success in its development of international markets.

Table 5-3-1 Taiwan's Top Ten International Brands as of 2004

Ranking	Brand name	Company name	Brand name value (NT\$ million)	Growth rate of brand name value 2003–2004
1	TrendMicro	TrendMicro Enterprise	30,835	18.8%
2	ASUS	ASUS Computer	27,788	13.6%
3	Acer	Acer Computer	21,673	24.4%
4	Master Kong	Master Kong Holding	12,004	3.6%
5	MAXXIS	Cheng Shin Rubber	9,402	8.0%
6	BenQ	BenQ Taiwan	9,123	35.0%
7	GIANT	Giant Bicycles	8,085	12.7%
8	ZyXEL	ZyXEL	7,303	9.7%
9	D-Link	D-Link Corp.	7,193	N/A
10	ADVANTECH	Advantech Taiwan	6,626	9.6%

Source: Taiwan Innovalve website.

1. SME Marketing Models

In recent years, businesses have been moving the main focus of their operations more and more towards marketing; enterprises have become more aware of the contribution that marketing activities can make to profitability. Table 5-3-2 shows that the response strategies that businesses have adopted in order to deal with the changing domestic business environment have included the stepping up of R&D activity (a strategy adopted by 40.56% of enterprises), followed by the cultivation of specialist talent (28.73%), own-brand development and design capability enhancement (27.83%), and

the strengthening of marketing capabilities (23.91%). SMEs have thus come to attach more importance to marketing activities as a means of developing their business operations.

Table 5-3-2 Strategies Adopted by Business Enterprises in Response to the Changing Business Environment

Unit: %

Strategy	Scale	Size of the Taiwan parent company			
		Grand total	Small enterprise	Medium enterprise	Large enterprise
Increased overseas investment		12.21	18.68	12.24	8.65
Increased investment in Taiwan		10.53	7.66	10.88	12.08
Stepping up R&D activity		40.56	55.08	53.06	31.59
Stepping up the automation of production		23.71	21.36	25.17	24.89
Strengthening of environmental protection facilities and technology		4.34	3.45	3.40	4.91
Cultivation of specialist talent (e.g., technical, marketing and financial specialists)		28.73	31.80	27.21	27.16
Effective utilization of capital and focusing on long-term rather than short-term profitability		11.92	6.90	12.24	14.66
Development of own brand and of distinctive product design capabilities so as to boost competitiveness		27.83	23.85	34.01	29.54
Computerization of business operations		8.23	7.95	5.44	8.60
Stepping up the introduction of new technology from outside sources		17.14	16.28	17.69	17.56
Enhancement of marketing capabilities		23.91	19.92	18.37	26.53
Formation of marketing alliances with other companies or groups		6.12	9.29	6.80	4.32
Flexible adjustment of investment in domestic and overseas production locations		4.66	7.66	5.44	2.95
Diversification of operations		15.78	10.54	13.61	18.83
E-Business development		3.43	4.41	2.04	3.01
Boosting value-added		19.40	23.75	21.77	16.83
Developing new markets, both in the domestic market and overseas		22.58	22.89	16.33	22.89

Source: Ministry of Economic Affairs, *Survey on Overseas Investment by Manufacturing Industry in the Taiwan Region, ROC, 2004*.

As regards the sales strategies that enterprises emphasize (Table 5-3-3), it can be seen that, regardless of enterprise size, “monitoring market demand and strengthening the company’s own systems and functions” is given top priority, followed by “the aggressive introduction of new products into the marketplace.” Although “enhancement of corporate image” ranks relatively far down the list, its perceived importance has been increasingly steadily.

2. Overseas Sales

Regarding overseas sales, it can be seen from Table 5-3-4 that, in those cases where

the products of manufacturing firms' overseas operations are sold locally or exported to other regions, the percentage of enterprises reporting an increase in sales is significantly higher than the percentage reporting a decline in sales. However, in cases where the overseas operation's products are shipped back to Taiwan, the percentage of enterprises reporting an increase in sales is lower than the percentage reporting a decrease. It can thus be seen that the development of overseas production and overseas sales by the Taiwanese manufacturing sector in recent years has been quite successful.

Table 5-3-3 Sales Strategies Emphasized by Taiwanese Manufacturing Enterprises

Unit: %

Strategy	Scale	2002 total	2003 total	2004 total	Size of Taiwan parent company		
					Large enterprise	Medium enterprise	Small enterprise
Monitoring market demand and strengthening the company's own systems and functions		62.58	77.44	66.17	75.3	69.47	63.57
Aggressive introduction of new products into the marketplace		57.93	55.73	55.05	63.01	58.49	52.67
Price setting strategy		43.66	34.79	42.65	40.45	40.29	43.59
Enhancement of after-sales service		38.72	34.59	36.75	37.71	33.82	37.15
Enhancement of employee's sales capabilities		28.04	28.13	27.52	27.21	30.16	27.05
Alteration, restructuring or strengthening of sales channels		21.57	28.93	24.99	21.24	25.03	25.77
Enhancement of corporate image		25.67	18.52	21.29	18.5	20.39	22.06
Aggressive expansion of advertising and promotional activities		17.90	16.24	18.77	13.72	18.07	19.98
Other		–	1.29	1.63	0.95	1.34	1.83

Note: Respondents were permitted to select more than one sales strategy.

Source: Ministry of Economic Affairs, Survey on Overseas Investment by Manufacturing Industry in the Taiwan Region, ROC, 2004.

Table 5-3-4 Comparison of the Sales of Taiwanese Manufacturing Enterprises' Overseas Operations in 2004 as Compared to 2003

Unit: %

Scale	Sales	Shipped back to Taiwan			Sold locally			Exported to other regions		
		Increase	About the same	Decrease	Increase	About the same	decrease	increase	About the same	Decrease
Grand total		26.78	53.70	19.52	33.55	61.32	5.13	31.80	59.70	8.49
Small enterprise		21.75	53.72	24.70	33.83	61.41	4.76	30.49	59.17	10.34
Medium enterprise		35.64	52.18	12.18	33.17	60.00	6.83	34.86	59.85	5.29
Large enterprise		31.86	54.42	13.73	33.33	61.87	4.80	32.88	60.67	6.45
Percentage of total sales (all categories) held by this category of sales		16.64			48.79			34.57		
Expansion index		53.63			64.21			61.61		

Source: Ministry of Economic Affairs, Survey on Overseas Investment by Manufacturing Industry in the Taiwan Region, ROC, 2004.