Does International Entrepreneurial Orientation Matter in Japanese SMEs?

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Introduction: Purpose of Research

The purpose of this paper is to use statistical survey data to verify the relationship between entrepreneurial orientation (EO) and the will for international business (IB) of top managers in Japanese small and medium enterprises (SMEs). Our findings show that international entrepreneurial orientation (IEO) is a key factor to consider when analyzing the internationalization of Japanese SMEs. Additionally, we attempted to show that EO is also related to entrepreneurial behavior, such as networking and new product and service development. This means that entrepreneurial SMEs tend to pursue various entrepreneurial behaviors, including internationalization, while they are utilizing EO as the managerial driving force.

Japanese SMEs have traditionally depended on the domestic market, which many researchers suggest has restricted their managerial behaviors to Japanese customs, resulting in different management strategies from foreign SMEs. The internationalization of Japanese SMEs remains poorly understood in both Japanese and English articles, although some researchers argue that Japanese SMEs enter foreign markets to survive the decrease of domestic demand due to depopulation and overseas shift of large companies—in other words, Japanese managers internationalize their businesses as the result of outside pressures, rather than intrinsic entrepreneurial attitudes.

Existing Literature and Viewpoints

We attempted to observe the quantitative relationship between EO and the will for IB of top-managers in Japanese SMEs. In general, EO is regarded as the driving force of firms' entrepreneurial behaviors and integration of "proactiveness,"

“innovativeness,” and “risk-taking” (Miller, 1983). Covin and Slevin (1988, 1989) pointed out that EO in firms is generated from managers’ entrepreneurial attitudes or managerial styles. EO is the foundation of management's ability to strategize, make decisions, set goals, maintain organizational integrity, and create their own competitive advantages (Rauch et al., 2009). EO becomes especially important when we analyze the behaviors of SMEs restricted by small size and simple family-business structure, where the owner is also the manager. According to the above logic, many researchers attempted to verify the relationship between EO and managerial performance, such as sales growth rate or profit (Wiklund & Shepherd 2005; Anderson & Eshima, 2013). Several empirical studies also addressed the relationship between EO and will for IB as it pertains to other countries’ SMEs (Jones & Coviello 2005; Zhou 2007). If we can show a significant relationship, we can insist that IEO is an important criterion to analyze the internationalization process of Japanese SMEs. Additionally, existing literature hasn't discussed the effect of other variables, such as business size or the period of IB on managers' will for IB. We examined EO and other variables to emphasize their importance on internationalization.

IEO is the extended concept of EO. According to Dai et al. (2011), highly proactive SMEs attempt to beat their competitors to foreign markets. Highly innovative SMEs approach foreign customers to gain new knowledge from foreign markets. Highly risk-tolerant SMEs are aggressive and undaunted by uncertainty when entering foreign markets. Several articles point out that IEO is a key trait in "Born-Again Global" firms (Knight and Cavusgil, 2004; Bell, McNaughton, and Young, 2001).

Empirical Study

To study the relationship between EO and will for IB, we designed a questionnaire based on the ideas of Covin and Slevin (1989). We surveyed participants in the Tama area, a suburb of Tokyo. Tama is home to a large number of SMEs. We also sought the assistance of Tama Shinkin Bank, a major local bank.

First, from the bank's data, we collected information about SMEs that are

interested in international expansion, experienced in export, or that own overseas subsidiaries. Most of our samples are micro-firms. Second, their bank clerks visited SMEs to explain the survey to managers and ask them to fill in our questionnaire. As a result, we sent out 175 questionnaires and received 122 responses (69.7%), a high return rate. The questionnaire contained three questions assessing "proactiveness," three for "innovativeness," and two for "risk-taking," to be measured on a seven-point Likert scale. Basic statistics are shown in Table 1.

Table 1.

Basic Statistics

	Observation	Min	Max	Average	SD
num ofemployee	120	1	350	36.03	52.355
Firm's Age	118	1	109	31.92	22.422
Period of IB	115	1	64	15.24	11.184
Export	YES=68.3%				
Production Basement	YES=44.8%				

Results and Discussion

Table 2 shows the result as a correlation matrix between eight items of EO and will for IB with a seven-point Likert scale, using polychoric correlation methodology. We included “Profit” as a Likert item to evaluate SMEs in terms of the "EO-Performance" model. To assess will for IB, we included “the will to create new products and services.” and “Networking,” Table 2, shows that the eight EO factors are strongly correlated with the will for IB—more than the will to create new products and services, condition of management, networking, or profit. This result implies that top

managers' EO is the main force driving internationalization of Japanese SMEs in all stages of development. We confirmed this result by SEM : Structual Equation Modelling, for robustness (Table3).

In addition, we tested our results by comparing the influence of EO factors with that of several variables, such as firm size, firm age, the period of IB, managers' educational background, and ratio of foreign sales. We could not find any of these variables significantly correlated with the will for IB. From these results, we can claim that will for IB in SMEs (especially micro-firms) is strongly affected by EO, and not by firm size, period of IB, or current foreign sales rates. In other words, top managers' thinking is the most important factor in the internationalization of Japanese SMEs. Moreover, these results are consistent with foreign research on similar topics. Hence, we can insist that IEO—EO in the context of internationalization—is a crucial point in analyzing internationalization of Japanese SMEs. Moreover, from our results, we can insist that SMEs' entrepreneurial behaviors, such as internationalization, new product and service development and networking, have mutual relationship based on their EO.

Table 2.

Correlation Matrix between EO and Their Managerial Behavior and Output

	Profit		Will for International Business		Will to New Product and Service Development		Networking	
proactiveness1	0.211	*	0.346	**	0.282	**	0.277	**
proactiveness2	0.081		0.390	**	0.164		0.000	
proactiveness3	0.271	**	0.364	**	0.346	**	-0.033	
innovativeness1	0.178	+	0.015		0.346	**	0.049	
innovativeness2	0.088		0.285	**	0.406	**	0.124	
innovativeness3	0.326	**	0.280	*	0.298	**	0.219	**
risk1	0.122		0.267	*	0.178		0.125	
risk2	-0.026		0.336	**	0.217	*	0.129	

** $p < .01$, * $p < .05$, + $p < .10$

Table3.

The Results of SEM

Path			Estimate	T-Value	P-Value
proactiveness	→	proavtiveness1	0.531	—	—
proactiveness	→	proavtiveness2	0.465	3.64	***
proactiveness	→	proavtiveness3	0.419	3.382	***
innovativeness	→	innovativeness1	0.627	—	—
innovativeness	→	innovativeness2	0.849	4.992	***
innovativeness	→	innovativeness3	0.141	1.343	0.179
risk	→	risk1	0.714	—	—
risk	→	risk2	0.627	3.93	***
EO	→	proactiveness	1.016	—	—
EO	→	innovativeness	0.788	3.548	***
EO	→	risk	0.683	3.652	***
EO	→	Wii for IB	0.514	3.715	***
EO	→	Will to NPD	0.179	1.598	0.11
EO	→	Networking	0.476	3.594	***

*** $p < 0.01$

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