

Relationship between Competitive Advantage and Success or Failure of Overseas Expansion in Small and Medium-Sized Manufacturers

Fumihiko Isada¹, Yuriko Isada²

¹Faculty of Informatics, Kansai University, Takatsuki, Osaka, Japan,

²School of Policy, Kwansei Gakuin University, Sanda, Hyogo, Japan

Abstract: The objective of this research is to clarify, empirically, how business factors influence the overseas expansion of small-to-medium-sized manufacturers (SMMs). With the internationalisation of a business, many SMMs have increased their overseas expansion in recent years. On the one hand, the probability of success for overseas expansion is not necessarily high. Of course, a lot of SMMs have succeeded in overseas expansion and expanded their revenue. On the other hand, however, there are many cases of SMMs failing in and withdrawing from the overseas expansion process. Although the influence of succeeding or failing is great in regard to corporate performance, there is a lack of clarification as to which business factors serve as the basis for SMMs' decision-making. In this paper, research hypotheses are proposed to help measure the influential difference between the following select sources of competitive advantage: (a) external positioning and internal organizational capability; and (b) static perspective and dynamic perspective. Then, the select sources of competitive advantage are typified based on prior research. To verify the hypotheses, a questionnaire was implemented toward SMMs of Japan that expanded their business overseas. As a result, it became clear that the optimal overseas expansion strategies are different according to an SMM's source of competitive advantage. As a contribution, it is expected that the results of this research will support the decision-making of SMMs toward overseas expansion.

Key words: *Overseas Expansion Strategies, Small-to-Medium-Sized Manufacturers, sources of competitive advantage*

INTRODUCTION

The objective of this research is to clarify, empirically, how business factors influence the overseas expansion of small-to-medium-sized manufacturers (SMMs). With the internationalization of a business, many SMMs have increased their overseas expansion in recent years. On the one hand, the probability of success for overseas expansion is not necessarily high. Of course, a lot of SMMs have succeeded in overseas expansion and expanded their revenue. On the other hand, however, there are many cases of SMMs failing in and withdrawing from the overseas expansion process. Although the influence of succeeding or failing is great in regard to corporate performance, there is a lack of clarification as to which business factors serve as the basis for SMMs' decision making.

This research establishes the hypothesis that the difference in the kind of source of the competitive advantage of a company influences the success or failure of overseas expansion. Sources of competitive advantage for a manufacturer include lowness of cost, differentiation of a product, and others. These features are different for different companies, and thus the success factor in overseas expansion may also differ.

There are two dominant and conventional strategic theories about the source of a competitive advantage. One is the strategy theory of Porter [1], which is also called positioning theory. The other is the resource-based view by Wernerfelt [2] and Barney [3]. The two theories locate the source of a competitive advantage outside and inside a company, respectively. Then, the argument on the

source of a competitive advantage is developed into a dynamic viewpoint, observing the change capability, rapidity, etc. according to a competitive environment. For example, D'Aveni [4], Eisenhardt and Sull [5], and Teece et al. [6] are mentioned. Thus, various patterns exist in the source of a competitive advantage. Moreover, the source of the competitive advantage is embedded in the business environment. It is thought that there are differences in the environments where the source of each competitive advantage is suitable. Then, this research classifies the source of a company's competitive advantage into some patterns and aims at clarifying the relationship with the success or failure of overseas expansion. To verify the hypotheses, a questionnaire was implemented aimed at Japanese SMMs that expanded their business overseas.

LITERATURE REVIEWS

1. The classic viewpoint about the source of a competitive advantage

Day [7] divided research on competitive advantage into two approaches, determined by "the environmental factors which surround a company" and "the resources which each company has". According to the positioning approach, the attractive outside environment that surrounds a company is a source of a competitive advantage. The well-performing company positions itself in a good environment by quickly discovering and participating in an attractive market space, compared to other companies. According to the resource-based approach, the outstanding resources inside a company are the sources of a competitive advantage. In this case, a well-performing company has resources that are superior to those of other companies, and the resources are inimitable and scarce.

2. Positioning approach

According to Porter [1], attaching a company to an advantageous position by influencing a competition factor in the industry leads to good performance. The kinds of advantageous positions are differentiation, cost leadership, and centralization. Moreover, when the value chain of all the activities of a company fits the positioning, a competitive advantage increases sustainably.

3. The competitive advantage in a resource-based strategy theory

Using the resource-based approach, Barney [3] presented the following four characteristics as features of the management resources connected with a competitive advantage: "value" enables the company to adapt to threats and opportunities in the outside environment; "rarity" is also required, as is "inimitability" (and management resources need to be not substitutable with other resources). Also, Regarding Hamel & Prahalad [8], "core competence"(comprises the skills or technologies that produce a new product with customer value.

4. The strategy of a dynamic competitive advantage

According to D'Aveni [4], today's competitive environment is more intense than the past and can be called hyper-competition. The source of the competitive advantage in hyper-competition is produced by the dynamics and the interaction of strategic diplomacy between global and innovative companies. According to Day et al. [9], the dynamic decision process of competitive strategy is a source of competitive advantage. Eisenhardt and Sull [5] presented the concept of a simple rule strategy theory and emphasized the importance of marketing immediately in a fast-changing business environment. A key process and a unique and simple rule are the sources of a competitive advantage. Moreover, the resource-based strategy theory has changed from a static viewpoint to dynamic viewpoints, such as new resource development and resource reconstruction. Teece et al.[6] presented the dynamic capability as an extension of a resource-based strategy. A dynamic capability is the capability to build, gain, unify, adjust, and reconstruct the competitive resources of the inside and outside of a company corresponding to the changing market.

If the series of theories related to the source of the competitive advantage as discussed above are simply arranged, it can be expressed as in figure 1. The first classification axis is inside and outside the company. The second classification axis is static and dynamic.

	static	dynamic
outside	Positioning, etc.	Simple rule, Dynamic capability, etc.
inside	Resource based view, etc.	

Figure 1. Types of sources of competitive advantage

RESEARCH HYPOTHESES

The following hypotheses were set up based on the above-mentioned competitive strategy theories. First, according to the positioning strategic theory, the source of a competitive advantage is product differentiation, cost leadership, etc. Moreover, according to the resource-based strategic theory, the source of a competitive advantage is research-and-development capability, skilful manufacturing capacity, etc., which are accumulated into the company. According to the dynamic strategic theory, the source of a competitive advantage is the capability corresponding to change, such as marketing capacity, development speed, and service capacity. Hypotheses reflect the relationship of these competitive advantages and the success or failure of overseas expansion:

- H1. SMMs whose product differentiation is a source of competitive advantage succeed in overseas expansion.
- H2. SMMs whose cost leadership is a source of competitive advantage succeed in overseas expansion.
- H3. SMMs whose accumulated technical development capability is a source of competitive advantage succeed in overseas expansion.
- H4. SMMs whose skilful manufacturing capacity is a source of competitive advantage succeed in overseas expansion.
- H5. SMMs whose marketing capacity is a source of competitive advantage succeed in overseas expansion.
- H6. SMMs whose development speed is a source of competitive advantage succeed in overseas expansion.
- H7. SMMs whose service capacity is a source of competitive advantage succeed in overseas expansion.

Figure 2 shows the classification of each hypothesis.

	static	dynamic
outside	H1, H2	H5, H6, H7
inside	H3, H4	

Figure 2. classification of hypotheses

EXAMINATION METHOD AND OUTLINE OF RESULT

A questionnaire was developed to test each of these hypotheses. Question items reflected the source of the competitive advantage based on each hypothesis and the degree of success or satisfaction of overseas expansion. Responses used a 5-point Likert-like scale. Question items also addressed various subjects about overseas expansion. Respondents were businesspersons attending an MBA class that the author directs, who were employees of Japanese SMMs with advanced sales, manufacturing, and R&D operations targeted to overseas markets. The survey was carried out in October 2017 and had 32 validated respondents.

ANALYSIS RESULT

First, factor analysis was conducted in regard to the question items, and the following factors were extracted: overseas success addressed the degree of success and satisfaction of the overseas expansion; accumulated technical development capability and development speed were extracted from the questions about R&D; skilful manufacturing capacity and production equipment scale were extracted from the questions about manufacturing; and product differentiation, marketing capacity, and after-sale service capability arose from the questions about products and services.

Next, correlation analysis of the factor score was conducted between an overseas success factor and each other factor. The result of the correlation analysis is shown in Table 1.

Table 1. Correlation analysis result

Factor	Correlation coefficient
Product differentiation	.195
Production equipment scale	.418*
Accumulated technical development capability	.377*
Accumulated manufacturing capacity	.148
Marketing capacity	.334
Development speed	.355
After-sale service capability	.136

(*: 5% of significance level).

DISCUSSION

When small-and-medium-size Japanese manufacturers open factories or R&D centres overseas, the accumulated technical development capability is important. Hypothesis 3 was verified. Moreover, as a result of analysing the subject of overseas expansion for companies that compete by their accumulated technical development capability, strengthening this capability was important. Acquisition of quality personnel and suppliers in the expansion location is a key task that conditions the company's success.

However, competition through development speed does not lead to easy success, and Hypothesis 6 was rejected. When overseas expansion is analysed for companies that compete on development speed, the structure of the company's product is in many cases comparatively uncomplicated, and differentiation is difficult overseas. Moreover, cooperation between the company's native country and the overseas location produces bottlenecks that impede success. Next, success is difficult for competitive strategies based on manufacturing, marketing, and service capacities, and Hypotheses 4, 5, and 7 were rejected. When overseas expansion was analysed for companies that compete on manufacturing capacity, the acquisition of skilled workers had mainly become a problematic. When overseas expansion was analysed for companies that compete on marketing capacity, the difference of market needs between the native country and overseas location, as well as the acquisition of talented marketing personnel, had become problematic. When overseas expansion was analysed for companies that compete on service capacity, the issues of leadership to customers and collaborative companies in the external location were difficult to overcome.

However, seeking a competitive advantage on production equipment scale can bring success, and

Hypothesis 2 was verified. When overseas expansion was analysed for companies that compete on the scale of production equipment, it was found that technology can be easily transferred when the equipment investments are for mass-produced product types. For such a company, overseas development can succeed in transcending its domestic small market.

Regarding strategic theory, the source of a domestic competitive advantage is necessarily inapplicable, as it is overseas. In regard to a positioning strategy, products differentiated in the domestic market cannot necessarily be differentiated in a foreign market. On the other hand, regarding a cost leadership strategy, the company for which various conditions involving easy production expansion are applied can be successful in a foreign market. For the competitive advantage based on a resource-based strategy, the accumulated inimitable technology can become a source of competitive advantage. However, the acquisition of talented personnel conditions the company's success. Regarding dynamic strategies, because of the great difference between internal and external markets and business environments, capability for speed and change in a company's native country seldom translates to the overseas environment.

CONCLUSIONS

In this paper, research hypotheses are proposed to help measure the influential difference between the following selected sources of competitive advantage: external positioning and internal organizational capability, and static and dynamic perspectives. Then, the sources of competitive advantage are typified based on prior research. Results show that the optimal overseas expansion strategies are different according to an SMM's source of competitive advantage. In the case of a small-and-medium-size Japanese manufacturer, the

technical accumulation, which is a source of conventional competitive advantage, is also comparatively effective overseas. On the other hand, the capability for change and speed, which are new types of competitive advantage, Japanese SMMs cannot demonstrate a competitive advantage overseas. It is expected that the results of this research will support the decision making of SMMs toward overseas expansion.

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