How Foreign Technical Interns Contribute to SMEs’ Overseas Expansion

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Abstract: This paper intends to understand the overseas business expansion of a Japanese SME that is facilitated by strategic management of technical interns (TIs), a type of foreign migrant labor in Japan. We challenge the current prejudices and narrow view on the role of TIs by introducing a unique case wherein a rural SME utilized TIs as strategic human resources. Furthermore, we highlighted the positive influence of TIs on the gradual insiderization in foreign markets and development of new business opportunities.

Keywords: small and medium enterprise (SME), foreign direct investment (FDI), technical interns, migrant workers, international human resource management (IHRM)

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Introduction

Technical Intern Training Program (TITP) is a foreign guest worker program in Japan developed in the 1990s. Since its implementation, Japan has been admitting an increasing number of technical interns (TIs) to tackle the chronic labor shortage problem caused by aging working population. By the end of 2019, the number of foreigners in Japan hit a record high of 2.82 million, including an increase of 12% in TIs from those in the previous year (Ministry of Justice, 2019). Many Japanese small and medium enterprises (SMEs), who are the main employers of TIs, rely on this type of migrant worker as a source of stable and essential workforce (Kamibayashi, 2015; Mazumi, 2019).

However, despite the increasing number and importance of TIs, their role has been narrowly defined and passively described. In fact, the policy (TITP) has been criticized by many scholars and media as having drifted from its purpose of making an international contribution and being used to exploit cheap labor (Hansen, 2010; Sunai, 2019). Although a few scholars reported that some Japanese SMEs have strategically hired TIs for future international business expansion instead of mere labor shortage (Takeuchi, 2017), as suggested by JITCO, empirical evidence is scarce. Our knowledge on whether and how employment and management of TIs can facilitate SMEs’ overseas business remains extremely blurred and limited. Therefore, we investigate how TIs can contribute to SMEs’ overseas expansion.

In order to address this question, we take an integrated theoretical

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1 According to the Japan International Trainee & Skilled Worker Cooperation Organization (JITCO), the implementing organizations (employers) of TIs can benefit from the strengthening of relationships with overseas companies, the internationalization of management, vitalization of the company and contribution to production.
approach and combine the international business (IB) and international human resource management (IHRM) perspectives. A growing body of IHRM studies has gradually recognized migrant workers as a source of competitive advantage, which could contribute to international firms (Guo & Al Ariss, 2015). Although resource-limited SMEs are known to develop and leverage various business relationships as crucial resources for international expansion (Hamamatsu, 2017a, 2017b), the role of migrant workers in SMEs’ overseas expansion has been discussed inadequately.

We provide explanation on the research question by conducting a qualitative case study on K-co, a construction firm located in Kesennuma, Japan. Our findings show how strategically managed TIs contribute to an SME’s foreign direct investment (FDI) by facilitating business opportunity identification and gaining insidership in a foreign market (Johanson & Vahlne, 2009). It provides managerial perspectives to one of the most urgent social problems regarding migrant workers and TIs in Japan. It also contributes to isolated conversations between IHRM and IB studies (Andersson, Brewster, Minbaeva, Narula, & Wood, 2019).

Although studies on TIs have proliferated since 2000, management issues of TIs have only been covered and discussed sporadically under sociology, agricultural, and economics literature. Due to many cases of reported abuse of TIs and concerns over the substitution effects of domestic workers for foreign TIs (Hashimoto, 2011), scholars were concerned about the negative aspects of TITP and depicted employers of TIs as exploitative or negative (Liang, 2014). It was believed that TIs were unskilled or low-skilled labor aiming to only earn money and were often marginalized and mistreated with inferior working conditions and even harassment (Kamibayashi, 2015; Oishi, 2020). Hashimoto (2010) showed that manufacturing companies with low productivity tend to employ TIs for cost reduction. The strategic management of TIs for overseas business, as promoted
by government, is often a myth and a good wish, without practical evidence and academic discussion.

We approach this issue at the IB and IHRM interface with an integrated theoretical perspective. The Uppsala internationalization process model believed that learning activities of internationalizing firms lead to accumulation of foreign market knowledge and commitment and emphasized that outsidership is the “root of uncertainty” (Johanson & Vahlne, 2009). Additionally, IHRM scholars have discussed how to integrate migrant workers in firm activities and convert them into competitive advantages. For instance, Zikic (2015) proposed an HRM framework on how to strategically leverage the career capital of skilled migrants by understanding, attracting, and integrating them into local workplaces.

Based on the Uppsala model and the framework of Zikic (2015), the internationalization process of SMEs who employed TIs can be regarded as a process of resource building in host markets wherein TIs were actively involved. Specifically, our focus is on how TIs are trained and integrated for overseas expansion and how the case firm has identified and capitalized on international business opportunities.

**Method**

We chose an extreme case in this study because such a case deviating from everyday occurrences can reveal insights about normal processes (Yin, 2018). Specifically, we adopted a critical sampling approach to determine the most illuminative and richest case in terms of information (Fletcher & Plakoyiannaki, 2011). Among the eight SMEs we visited, K-co was selected as the most appropriate for our study because it expanded its business to Indonesia in 2016 after employing TIs in 2015. Studying K-co enabled us to collect rich data and provide deep “contextualized
explanations” to the phenomena under investigation (Welch, Piekkari, Plakoyiannaki, & Paavilainen-Mäntymäki, 2011). To clarify how TIs contribute to K-co’s overseas expansion, we have a longitudinal orientation to “observe how processes unfold over time” (Langley, Smallman, Tsoukas, & Van de Ven, 2013). To collect longitudinal data about the firm, we utilized multiple data sources as shown in Table 1.

Table 1. Data sources

| Data sources                  | Data collection time     | Aims, methods and descriptions                                                                 |
|-------------------------------|--------------------------|-------------------------------------------------------------------------------------------------|
| Executive                     | 2019/06/28 & 2019/07/25  | Primary data 2 semi-structured interviews                                                      |
| 6 Indonesian workers          | 2019/07/25               | Primary data 1 semi-structured interview with 6 male Indonesian workers aged 20–27            |
| Official company SNS account  | 2019/10–2020/07/07       | Primary data Historical and longitudinal data from 2015 to 2020 on the company activities in Japan and in Indonesia |
| Observation notes             | 2019/07/25               | Complementary data Observation in the dormitory of the 6 Indonesian workers                    |
| Consultants                   | 2019/06/28               | Complementary data Focus group interview with a representative from a consulting firm that K-co has been collaborating with since 2014. |
| Company website and press release | 2019/06–2020/07        | Complementary data                                                                           |
| External experts in a local Japanese SME association | 2019/11 & 2020/01 | Complementary data Memo taken during conversations with experts in a local SME association that K-co joined |
Case Study Findings

Case profile

K-co is a construction SME located in Kesennuma City\(^2\) in Miyagi Prefecture, Japan. It is a family business with a 40-year history. By the end of July 2019, K-co had forty-one employees, including six Indonesian workers. It also has two Indonesian subsidiaries in West Java and runs one Indonesian restaurant in Kesennuma. See Table 2 for details in the case profile of K-co:

The idea of overseas expansion was not conceived until 2014, when the executive realized that local demands for construction work would decrease and even vanish by 2020. Meanwhile, K-co was also

\(^2\) Kesennuma City is located in northeastern corner of Japan, with an estimated population of 61,957 as of April 2020. Large sections of the city were destroyed by the 2011 Tohoku earthquake and tsunami.
suffering from severe labor shortage. Encouraged and inspired by advisers from local institutions, K-co decided to hire Indonesian workers through TITP and explore the Indonesian market simultaneously. Advised by Japan External Trade Organization (JETRO), K-co started its cooperation with an international labor dispatching and management company, M-co. Soon after the first batch of three Indonesian TIs arrived in May 2015, K-co was introduced to a few local firms in Indonesia by M-co, including the key business partners of their future subsidiaries. Since then, three Indonesian TIs have been hired by K-co every year for a three-year technical training, which became a key driver of K-co’s business expansion to the Indonesian market.

K-co’s overseas expansion

As summarized in Table 3, from the initial idea of accepting TIs and entering the Indonesian market to its successful implementation, K-co largely underwent two phases: 2014–2015 and 2016–2018. These changes in the two phases show incremental increase in business diversification, network size, and organizational presence in Indonesia.

Phase 1: Employing and training Indonesian TIs (2014–2015)

In the first phase, Indonesian TIs were employed and trained mainly for K-co’s daily operations in Kesennuma, with a future business goal to expand to Indonesia. During this phase, Kesennuma remained the major activity area of K-co.

In terms of HRM practices for TIs, K-co had a management style of valued care, respect, and career development. The Japanese proficiency of TIs exhibited in our interviews manifested the effective training and integration results. During the interview, all six TIs could understand conversational Japanese, and three of them could even speak fluently without any difficulty. These three TIs facilitated
our interview session by translating questions for newly arrived TIs whose Japanese proficiency was lower. The executive supported the language study of TIs by accompanying them to Sendai City for Japanese language tests and celebrated their progress with small award ceremonies within the company. The executive described their workers’ communication style as “more Japanese than Japanese people,” and it was acquired through daily conversation and interactions with Japanese co-workers at sites.

K-co also promoted inclusive workforce culture in the company. Indonesian TIs were paid the same salary and bonus as Japanese employees and could receive additional 20,000 yen each month for zero absence rate. During holidays or company trips,
Indonesian TIs travelled to other cities with co-workers. To enhance welfare, a double floor house was built before the arrival of the first batch of TIs. Additionally, as the construction sites were usually far from TIs’ dormitory, the executive designed a paid service between local employees and TIs. Local employees were paid 500 yen for picking up and dropping off one Indonesian worker per day, which facilitated interactions among both groups of employees. Furthermore, outside the company, Indonesian TIs of K-co were assisted in adapting to the local Japanese community as well. Every year, Indonesian TIs will represent K-co to participate in the Indonesian parade and perform *wadaiko* drumming in the local festival. K-co’s Facebook posts showed several photos and videos of Indonesian TIs and local Japanese employees during and after work in Kesennuma.

**Phase 2: Expanding to Indonesian market (2016–2018)**

In the second phase, K-co focused on the actual implementation of overseas business and successfully established two subsidiaries in Indonesia. Based on close cooperation with M-co and business partners in Indonesian subsidiaries, K-co extended its business networks on the domestic and foreign levels. As a result, Kesennuma and West Jawa became the main activity areas of K-co in this phase.

K-co’s resource allocations to the Indonesian market significantly increased in 2016. Sub1 is a consulting firm located in Bandung, engaging in consulting services, training, and education. Specifically, it provides support to Japanese companies aiming to enter the Indonesian market. Becoming better embedded in the local business environment, K-co increased its market knowledge and resource base in Indonesia, which led to the establishment of the manufacturing company Sub2 in Karawang. In addition to producing recyclable asphalts, Sub2 also engaged in collaborated research on recyclable asphalts with Indonesian universities. This effective
coordination of resource deployment helped K-co achieve synergies between businesses. All in all, the dynamic interplay between knowledge and commitment (Johanson & Vahlne, 2009) became stronger and more visible.

K-co’s successful business expansion to Indonesia provided its Indonesian TIs an excellent opportunity to utilize their knowledge and experience that they acquired in Kesennuma. Since the setup of Indonesian subsidiaries, a TI who returned chose to work at Sub2, and this kind of case is expected to increase in the future. Another TI who returned applied to extend the visa and work at Kesennuma again from December 2019. As such, K-co developed international human resources through the TI TP and attracted and retained employees who are motivated and properly trained, consequently avoiding relationships with poorly motivated or opportunistic partners that do not mutually appreciate social capital (Rodrigues & Child, 2012).

**Migrant workers facilitating SME overseas expansion**

Along the two phases, K-co developed its business in Indonesia, and TIs contributed to the overseas expansion through stimulating new business ideas and insiderization (Verbeke, 2020). According to the framework of SME’s movement toward internationalization developed by Etemad (2004), the Indonesian market entry decisions of K-co can be understood as interactive “pull-push factors” containing disparity in demographics and economic development between Japan and Indonesia, limited market and constrained human resources at home, access to international partners and resources and characteristics of decision-makers in K-co. Business opportunities would not have been easily identified or capitalized had K-co overlooked the potential capital of and relationships with TIs.

By means of a set of IHRD practices such as inclusive firm culture, networking events, cultural/language training and partnership with
local community and immigrant agencies (Zikic, 2015), Indonesian TIs have been constantly educated. Specifically, Japanese language training enabled TIs to be integrated and immersed in various company and community activities, which, as a result, facilitated and supported K-co’s overseas business activities in Indonesia (Kim, 2016). The language capability lays ground for understanding the unique nature of Japanese organizational culture (Oki, 2013; Takahashi, 2013, 2014) and bridging it with that of Indonesia.

The brand image and reputation of K-co in both markets have steadily improved through K-co’s effort to train TIs with a long-term perspective and continuous exploration to make the best use of human resources. Consequently, insidership was gained in the Indonesian market, which greatly contributed to K-co’s successful overseas expansion.

Conclusions

We focused on a SME from rural Japan to illustrate its successful and unique strategy in developing and leveraging TIs and achieving overseas expansion. The executive of K-co proudly mentioned that “our company has evolved.” We would argue that this evolution could be possible because K-co treated and trained TIs as valuable human resources and not as cheap labor that they use temporarily and discard. Our case study showed that TIs have high potential to be developed as a strategic resource of Japanese SMEs for FDI in emerging markets. The role of TIs in the process is the stimuli and linkage to a pool of unexplored resources in people and companies in home and foreign markets.

Our findings have several implications for theory and practice. First, by incorporating the IHRM perspectives, we highlighted the interdependence and reciprocity between employers and their TIs in the overseas expansion process. Thus,
decision-makers of SMEs should exercise a relational view in their TI management practices and global expansion strategy. Second, our findings reveal the importance of IHRM practices in SMEs for overseas business expansion, through which we stress the critical linkage of IHRM and IB. Specifically, the mutual learning process between SMEs and TIs, which includes not only company employees but also community members, was shown to be highly effective in K-co’s case. Third, our research is one of the earliest studies to explicitly discuss the so-called “low-skilled migrant workers” into the context of IHRM; these types of workers are neglected by management scholars. The case of K-co gives us a lesson that even low skilled migrants, or TIs, can be diamonds in the rough depending on how they are managed and trained.

It is believed that Japan is gradually becoming a “developmental migration state” (Tian, 2019). The interactions between foreign TIs and SMEs entail more dedicated managerial studies. We therefore advocate SMEs navigating through the risks and uncertainty in the changing environment to actively pursue knowledge acquisition and value the social capital related to their TIs in overseas business.

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