

Smes entry into china

Business



SMEs' Entry into China

Abstract

The internationalization of SMEs has become a subject of the special issue in the modern corporate era. China has emerged to be an interesting destination for various ambitious SMEs with the nation materializing into a flourishing foreign market, supplier, and collaborator in the post-Deng reform period since 1982 (Lowe & Wan, n. d.). The means of admission choice is directed by various complementary paradigms in the international business literature. These chiefly encompass the eclectic paradigm theory (Dunning, 1988), the 'stage' or sequential approach proposed by the Uppsala group (Johanson & Vahlne, 1977), transaction cost theory (Williamson, 1985).

Hypothesis

This proposal is designed to test the hypothesis that an SME intending to internationalize towards China is expected to acquire certain definite advantages, namely ownership, location, and internationalization.

As a theoretical guideline, Dunning's OLI model will be applied.

Dunning's Eclectic Paradigm

Dunning's paradigm holds the chief proposition that any international firm is required to own certain kind of advantage over local firms prior to its engagement in international production (Dunning, 1988). These advantages are namely ownership, locational and internationalization (Dunning, 1988). Accordingly, the theory has been referred to as the OLI-paradigm: Ownership advantages, Location-specific Variables and Internationalization-incentive advantages (Grillet, 2003b).

Ownership (O) Advantages

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SMEs' Internationalization towards China

Locational (L) Advantages

Internationalization-incentive (I) Advantages

Fig. 1 Dunning's OLI Model

Theoretical Framework

Ownership Advantages – “ The ownership advantages are unique to a foreign firm over its local competitors” (Chowdury, 2006). It arises out of its superior technology, management systems, privilege access to finance or raw materials, greater market power, etc. The theory of the ownership advantages reveals that those firms which possess competitive advantages over foreign firms in their domestic markets to sell certain goods or services can move towards internationalization (Grillet, 2003b).

Locational Advantages – According to the model, a firm can proceed in foreign production on perceiving its ability to merge mobile intermediate goods from the home country with immobile factor endowments, or other intermediate goods in another country (Grillet, 2003b). Factors supporting one or another country are the location-specific variables, for example, the host country being conducive to local products such as local demand, cheap or well-trained labor, natural resources etc (Grillet, 2003b).

Internationalization Advantages – The transfer of a firm's ownership advantages across borders within its organizational structures is referred to as internationalization (Grillet, 2003b). According to Dunning, the opposite of internationalization is to sell or give in license their own advantages to foreign firms (1988). The inability of the external market in providing a cheaper alternative leads the firms to internationalize their activities (Grillet, 2003b). The international market not considered as the best place to

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transact intermediate goods or services reveal market failure (Grillet, 2003b). Hence, firms internationalize by internalizing their activities (Grillet, 2003b).

Conclusion

From the above discussion, we can hence obtain an idea that the internationalization theory by Dunning can be considered an appropriate model for the SMEs targeting to internationalize towards China. The advantages mentioned in his theory respond to the Chinese market. The quest of internationalization towards China by the modern ambitious SMEs needs to be complemented with Dunning's OLI paradigm. The significant boom in the Chinese economy along with its location-specific advantages is revealing infinite potentials for the SMEs all over the world luring them to grab these prospects by internationalization towards China.

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