

Market Entry Strategy into China by Entrepreneurial New Venture Firms

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Principal Topic

This paper examines the entry strategy and start-up of a technology based small firm entering the China market through the vehicle of a joint venture company. The research deals with two main issues: - The intersection of the entrepreneurship and internationalization literatures - The specific considerations pertinent to foreign companies operating in China. The internationalization of entrepreneurship theory has been the subject of 'special issues' in the journals *Entrepreneurship in Theory and Practice* (1996); and *Academy of Management Journal* (2000). It has its roots in the seminal work of McDougal and Oviatt (1996, 2005).

Much of this literature identifies internationalization as an important determinant of performance in SMEs, and emphasizes the specific factors that link entrepreneurial perspectives and the processes of internationalization. Mode of entry choice is dominated by a number of complementary paradigms in the international business literature. These include the 'stage' or sequential approach proposed by the Uppsala group (Johanson and Wiedersheim-Paul, 1975); network theory (Chen and Chen, 2002); transaction cost economics (Buckley and Casson 1976); and the resource based view (Peng, 2001).

China as an international market, supplier and collaborator has changed radically since 1982, following the Deng reforms. It is now the third largest economy in the world but despite its promise has also proved a problematic partner for Western firms. Since its entry into the WTO there have been significant changes but the culture and practice of doing business in China has proved a problem. This research examines how an SME can participate in this market without incurring very high costs and risks.

Methodology/Key Propositions

With some exceptions (Jolly, 1992) the issue of SME entry strategies has not received a great deal of attention in the literature. In addition McDougall and Oviatt, (2003) challenge the notion that the theories of market entry that dominate the international business literature are applicable to the smaller firm. Our research approach is two-fold: - An examination of Chinese government statistics to identify the distribution by industry and firm type of FDI by SMEs in China - A case study of a technology based SME that has established a successful joint venture in Northern China.

We use the secondary data to examine the conventional (large firm) propositions of the international business literature; we use the case study to examine how the specific entrepreneurial and China element require a modified perspective.

Results and Implications

Whilst some research has suggested that internationalization is a problematic strategy for SMEs we find that even in a high risk market like China, these companies have struck up effective but non - conventional organizational forms. The network theory of internationalization seems the dominant paradigm, although our case study introduces some specific considerations that the model had not previously acknowledged.

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