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Abstract of Graduation Thesis for the Degree of Doctor

Research on Internationalized Strategic Transformation of Clusters of Small & Medium-sized Private Businesses in Yangtze Delta Region

Name: Huang Jianhua

Major: Business Management

Concentration: Strategic Management

Tutor: Professor Yang Sizhuo

Affiliate: Guangdong Education Training Center
Guangzhou Chuangyuan Culture Promotiom
Co., Ltd

**《RESEARCH ON INTERNATIONALIZED STRATEGIC
TRANSFORMATION OF CLUSTERS OF
SMALL&MEDIUM-SIZED PRIVATE BUSINESS IN YANGTZE
DELTA REGION》**

---- Abstract ----

The increasing globalization of world economy and China's WTO accession will fully enhance the opening to the outside world of China's economy. The Small and medium-sized private enterprises are playing an increasingly important role in China's economic development, and will therefore get integrated into the economic globalization inevitably. Globalization of China's small and medium-sized enterprises is an inevitable trend in the economic globalization. In the past, globalization of China's SME represented an optional approach for corporate development; today, it is not just an option. Of the top 500 of the world, 400 gathered in China. China's market itself is the largest international marketplace. China's private enterprises have to think carefully what specific internationalized strategy shall be taken under the situation that they are disadvantaged in terms of funds, talented people, technologies, management and size comparing with these competitors.

For a disadvantaged enterprise, regeneration of competitive advantage has always been a strategic problem. China's SME have been obsessed by such problem from the moment of their birth. In this research, analysis was made on the clustering of SMEs in the Yangtze Delta Region. Based on the analysis, we can see that clustering is a very good approach for the regeneration of competitive advantages. In essence, enterprise clustering means to turn "individual fight" into "collective battle". Therefore, the private businesses, in formulating their development strategy on enterprise clustering, shall seek the approach of development on a higher sense rather than seek the normal market opportunities. In other word, they shall seek to join the cluster, optimize the cluster and even create clustering opportunities. This move will open up a space of strategic thinking and practice on a new higher level for China's private businesses that are in a disadvantaged position. Study on the clustering is not only a contribution for the competitive strategy of private enterprises, but also a contribution for all other enterprises, regional competition and internationalized competition.

In this thesis, the background and significance of the research is discussed first, introducing the reasoning and approach of the research and describing the major content of and new ideas in the thesis. While the keywords such as "private business", "enterprise

clustering”, “internationalized enterprise” and “corporate strategy” have been illustrated, the object of the research is defined as the policy making or the mode of action of the non-state-controlled small and medium-sized enterprises of mixed ownership that are interrelated in some specific field and are relatively concentrated in some geographic region or on the industrial chain.

After that, relevant theories on internationalization and the stages and modes of development of Chinese enterprises have been illustrated, leading to the summary overall view point and understanding that the relevant theories on internationalization of the predecessors have mainly dealt with 4 Ws, but are obviously insufficient in the research on how to establish the internationalized competitive advantages. In the internationalization process of Chinese enterprises today, the background is enormously different from that in Europe and America in the earlier years and is also different from the mode of internationalization in Japan and South Korea in recent years. In fact, growth pattern dominated by “transit trade” has been developed in China. Facing the large foreign-funded enterprises and groups that are advantaged in technologies, funds, size and brand name, China’s SMEs are adopting the development strategy of clustering, turning individual fight into group competitive force and accessing the market through joint efforts. The SMEs, through work division and cooperation on the basis of high-level specialization, have optimized the allocation of resources in the most efficient manner, and have even reached to summit in some specific industrial sector or industrial chain and achieved monopoly, distinguishing themselves as the “champion in single fight”. It is on the basis of this fact and academic background that the clusters of private businesses in the Yangtze Delta Region outstanding and typical in “privatization” and “internalization” and marked with “one village one product” and “one town one industry” are adopted as the object of the research, leading to the theoretical proposition of “enterprise clustering---competitive advantages in internationalization” for the purpose of unveiling the mechanism of generating and retaining the overall collective competitive force when the “individual fight” is turned into “collective battle”.

Based on the purpose of the research, literature method and induction method are adopted in the study of the development status and clustering of the SMEs in the Yangtze Delta Region; and survey has been made on the enterprises in this region involved in overseas business. The research shows that the SME clusters in the Yangtze Delta Region have so developed that they have healthy mechanisms and are in sound operation. The reason is that the cluster shares the same or similar cultural background. In the enterprise clusters marked

with “one village one products” and “one town one industry”, there are similar industrial backgrounds and a lot of unwritten rules, enabling the enterprises in the clusters conducting trade without any written contract and strategic coordination enhanced in the atmosphere of mutual trust. There is the trend of regional integrated coordination and development leading to the integration of the market operation as a whole. In Jiangsu, Zhejiang and Shanghai, the links between the local government and enterprise associations have greatly the coordination effect of enterprise clustering. This leads to the first new conclusion that enterprise clustering, in essence, is an organization of capabilities and an organization marked with industrial integration plus share of interests no matter how diversified in the forms and mode of clustering. A cluster of enterprises cannot be an cluster of the real sense until the businesses are interlinked with one another in the cluster for achieving high efficiency through high-level work division and coordination and for cultivating core competitive capabilities and the cluster is formed and organized for the fundamental purpose of enhancing the large-scale competitive advantages.

By defining the connotation of enterprise clustering and providing the evidence for the conclusion that the enterprise capability is in essence a system of capabilities, the thesis successfully explained the universal phenomenon of cooperation and competition, mutual complementarity of resources, enhancement of capabilities, continued exploration of new opportunities and building up large-scale competitive advantages in the enterprise clustering in the Yangtze Delta Region.

Then, comparative research method is adopted in studying the background of the development of globalization of the private enterprises in the Yangtze Delta Region. It is discovered in the research that comparing with the enterprises of other countries, the globalization of the enterprises in developing countries are launched under two special conditions: (1) the enterprises of the developing countries are later-developing multinational companies, which are different from the earlier-developing multinational companies in terms of competitive advantages, the mode of accession into foreign markets and the ownership structure; (2) China is a transitional economy. In the transition from the planned economy to the market economy, the government and enterprises are facing the issue of step-by-step transition of their functions to meet the requirements of the market economy. The private enterprises are facing the task of marketization and internationalization. On one hand, the reform of the state-run enterprises is deepening, expanding from the management right to the property right; on the other hand, the huge inflow of the direct overseas investment leads to the private enterprises facing international competition in their local areas. Therefore, the

internationalization of China's private enterprises has its specific features and choice of routes. In the research, it is discovered internationalization process of the private enterprises in the Yangtze Delta Region is based on two major fulcrums: one is the product quality, the other is the expansion based on low costs. Production technologies and management techniques directly influence the product quality. The advantages for the private enterprises in the Yangtze Delta Region are in the perfect opportunity of shifting the labor-intensified production into developing countries by taking advantage of the international production work division system and in the introduction of advanced production technologies from abroad so as to improve the technical levels more quickly. In the process of introducing advanced technologies, they not only upgrade the equipment, but also learn and assimilate advanced production systems and management skills. Consequently, the product quality is improved quickly, making the private enterprises take a share in the domestic market. The quickly growing demand in the domestic market is the basis for the quick expansion of the private enterprises in the Yangtze Delta Region; and the intensified competition in the domestic market has become the major motive for these private enterprises to participate in the international competition. The second new idea in this research is that the tie for enterprise clustering is more based on industrial chain than specific areas. The intensified competition on the domestic market urges the private enterprises to positively participate in the international competition. Domestic-oriented internationalization is the basis and conditions for the foreign-oriented internationalization. The significance of the domestic-oriented internationalization is in the initial provision of the opportunities for learning, directly narrowing the gap between the Chinese enterprises and the overseas. In the process of internationalization, learning and cooperation are always mixed together, finally leading to transcendence in the form of innovation, which is the key factor in developing the internationalized large-scale competitive advantages.

After that, the questionnaire survey and on-site survey are adopted to study the internationalization process of the private enterprises in the Yangtze Delta Region. Based on the properties of products under the survey, most of the products (70%) belong to the labor-intensified, and 20% are of the technology-intensified. Only about 10% are of the capital-intensified. From the perspective of technical level, 34% of the enterprises have reached the international advanced level in terms of their production equipment; about 30% are in the domestic leading position in terms of their technical level. In the research and assessment on the mode of entry into the strategic internationalization, the choice of targets and importance of business motives, it is discovered that technical transfer has reached 1.6

and advanced technologies 2.4. The research and investigation show that the clustering of small and medium-sized enterprises in the Yangtze Delta Region is a low-cost-based clustering rather than the innovation-based clustering. The third new idea reached in the research is that the clustering of the small and medium-sized private enterprises are mostly based on low costs rather than innovation. To maintain the competitive advantages of sustained development, it is necessary to transform from the low-level natural clustering to the high-level investment-based clustering, which can be achieved through technical innovation; and the strategy of internationalization shall also be transformed from the low-cost-based to the technical innovation based.

The same methods are used to study the factors influencing the internationalization of the private enterprises in the Yangtze Delta Region, the existing problems and the development trend.

On the basis of Porter's "diamond model", further study is made on the relation between corporate strategy and competitive advantages and the influence of corporate strategy on the competitiveness of the cluster as a whole, which has been discussed in Porter's "National Competitive Advantage". But, the focus of attention is on the difference of management modes and capital structure of different countries, lacking systematic and complete discussion and study on the essential aspects of corporate strategy. In this thesis, through the research on the internationalization of the clustering of SMEs in the Yangtze Delta Region, the influence of corporate strategy on the regeneration of competitive advantage of enterprise clustering is studied from the perspectives of corporate development strategy, strategic targets and competitive strategy. The fourth new idea reached in this research is that the small and medium-sized private enterprises may regenerate their internationalized competitive advantage through the strategy of clustering. The factors for creating the competitive advantage of enterprise clustering include not only congenital factors like the elements of production and conditions of demand, but also the important acquired factor of corporate strategy. Only when development strategy and strategic targets of the enterprises on the same industrial chain in a cluster are the same or mutual complementary and the high-level differentiation strategy is adopted in the field of internationalization, will the advantaged resourced and clustering capacity be greatly utilized and the maximum internationalized competitive advantage generated.

After that, the principle, industry, location, route and mode for the choice of enterprise clustering are put forward in this thesis. And, the enterprises in the cluster shall formulate the strategies in line with the development target of clustering so as to form and develop the

large-scale competitive advantage of clustering, which is an essential step. In this research, it is discovered that the internationalized development strategy of the clustering of small and medium-sized private enterprises in the Yangtze Delta Region include:

1. The internationalization of the clustering of SMEs in the Yangtze Delta Region must develop from the domestic-oriented internationalization to the foreign-oriented with the domestic-oriented internationalization as the necessary basis and conditions for the foreign-oriented. The significance of the domestic-oriented internationalization is in the provision of the opportunities for learning, directly narrowing the gap between the Chinese enterprises and the overseas. In the process of internationalization, learning and cooperation are mixed, finally leading to transcendence in the form of innovation, which is a key factor for developing the internationalized large-scale competitive advantage.

2. The SMEs in the Yangtze Delta Region may regenerate the internationalized competitive advantage through the strategy of jointing clusters, optimizing clusters and even creating clusters. The businesses in a cluster may achieve high efficiency, cultivate core competitive capability, enhance the large-scale competitive advantage and achieve the advantage of low costs in the cluster through the high-level work division and coordination. On the aspect of occupying the internationalized market, the low-cost penetration strategy shall be adopted. Only when the development strategies and strategic targets of the enterprises on the same industrial chain in the cluster are the same or mutually complementary, will the advantaged resources and clustering capacity be fully utilized and the maximum internationalized large-scale competitive advantage be created.

3. To maintain the sustained development of the competitive advantages, the clustering of SMEs in the Yangtze Delta Region shall develop from the low-level natural type to the high-level investment-based type. This transformation can be achieved through technical innovation; and the internationalization strategy shall also be transformed from the low-cost based strategy to the technical innovation-based.

Finally, through the study on environment of implementing the transformation of the internationalization strategy of the clustering of SMEs, research lead to the fifth new ideal that the transformation of the internationalization strategy of the SMEs in the Yangtze Delta Region can only be achieved in the specific environment; and the competitive advantage of the enterprise clustering can be maximized only under the condition that the exterior environment and interior environment are harmonious to each other. The exterior environment is mainly on the aspects of the government and society. From the government side, it is essential to properly handle the issue of “orientation” and “in place”; on the social

aspect, it is essential to develop the triangular economic treatment structure of “government—intermediary organizations—enterprises” as soon as possible. The interior environment is mainly on the level of the enterprises, on which aspect, it is essential for the enterprises to get adapted to the requirements of the development of internationalization through self transformation.

Key words: private business, collective business, internationalization, corporate strategy, competitive advantage