



The Way to Internationalization for Small & Medium-sized Enterprises — Industry Cluster

Xiaoshui Yu

Tianjin University, Tianjin 30072, China

Shandong University of Finance, Jinan 250014, China

E-mail: yxiaoshui@163.com

Jinsheng He

Tianjin University, Tianjin 30072, China

Abstract

With the globalization of the world economy, especially after China entering the WTO, it is an unavoidable trend for China's small & medium-sized enterprises to join the international competition. According to the analysis on the advantages and disadvantages of China's small & medium-sized enterprises, industrial cluster should be an efficient way for the small & medium-sized enterprises to reach the target of internationalization. By establishing and improving specialized industry clusters with regional uniqueness, China's small & medium-sized enterprises could have formed their core competing power in global competition and carry out their strategy of internationalization.

Keywords: Industry cluster, Specialization, Global supply chain, Internationalization

1. The analysis on the advantages and disadvantages of China's medium-small enterprises in international exploration

With the globalization of world economy, especially after China entering WTO, China's medium-small enterprises have to face the competition with multinational corporations and it is unavoidable for them to fight a way in the fierce global competition. The key point in global market exploration for any enterprise is to make the best use of its comparative advantages which can lead to core competing power in international competition. In the view of modern economics theory, there is probability for medium-small enterprises to survive and develop in international market because China's small & medium-sized companies have comparative advantages.

First of all, China's small & medium-sized enterprises are highly centralized in responsibilities, power and benefits, and thus they have a quick responding system in decision-making process. They usually start with primary products with low technology content and low added value. Therefore, they have a place in the segmented international market or in the global supply chain. Secondly, China's modern small & medium-sized enterprises have a short developing history and most of them have the features characterized by small scale of investment and unitary variety of products, which can meet the need of modern large-scale production. Finally, low-cost, low-price and high cost performance are the main competitive advantages in global market.

However, besides restraint from the external factors such as market, governmental and non-governmental system, China's small & medium-sized enterprises have also come across the restraints resulted by internal factors:

A. Shortage of capital and difficulty in financing. The shortage of finance resources not only holds back small & medium-sized enterprises in their exploring international market, but also stops them from strengthening their technological innovation or improving abilities of market exploration.

B. Lack of information. Because of the restriction of the limited manpower and material resources in small & medium-sized enterprises, most of them have invested little in establishing information system, still depending on primary ways in getting information, and thus, they could not get the useful information about the international market by using modern computer technology, which limited their abilities of exploring the global market.

C. Lack of core competing power due to limited technology and low innovating ability. Because most of China's small & medium-sized enterprises are lack of capital and talents, they are weak in technological innovation and can not have monopoly advantages which can be only obtained by high technology.

D. Lack of high-qualified international talents. When investing abroad, China's small & medium-sized enterprises usually

come across the problem of shortage of talents. The shortage of international talents has seriously blocked the way for the small & medium-sized enterprises to internationalization.

E. Low ability to withstand risks. According to statistics, less than one third of China's small & medium-sized enterprises are successful in exploring international market. The failure of their internationalization is mainly because of their small scale, shortage of capital and lack of talents. However, besides the reasons above, they don't have strong ability to withstand risks, especially the risks such as anti-dumping duty, political instability, fluctuation of exchange rate and etc.. Because of their weak ability to withstand risks, once they come across problems, they have to withdraw from international market.

2. Establishing strategy of internationalization based on industrial cluster of small & medium-sized enterprises

According to the features of China's small & medium-sized enterprises, they should consider the situation and capitalize on their strengths, avoiding following the large-sized enterprises, in exploring the international market. The current developing trend of international business and global supply chain requires not only international perspective but also localization, which provides good opportunity to China's small & medium-sized enterprises in international market exploration. Industrial cluster of small & medium-sized enterprises is characterized by "small enterprise, broad cooperation", "small product, big market", "small cluster, great achievement" and will be the mainstay in international market competition. Therefore, establishing industrial cluster of small & medium-sized enterprises should be efficient way in the global market fight.

2.1 The features of industrial cluster and its relation with the development of small & medium-sized enterprises

Industrial cluster is a group of enterprises which are close geographically and technically related. They are in the same industrial field and they come together due to their commonness and complementarity. They are a new form of enterprises, which are a new configuration of industrial development and new economic phenomenon in the developing process of modern industry. The enterprises in the clusters are distributed regionally which are characterized by specialized operation, market-oriented linkage and social cooperation, of which specialization is the most remarkable feature. The industrial cluster has very strong internal motive force of development and sustainable vitality with the close cooperation between enterprises within the same cluster.

The past 20 years witnessed the birth of China's modern industrial clusters, which are distributed mainly in Guangdong, Zhejiang, Jiangsu, Shandong, Fujian and etc. Zhejiang province covers 40% of the number of industrial clusters while Guangdong stands for 28.8%. Those clusters are mainly composed of small & medium-sized enterprises, which are concentrated in the same industry, such as the clothing industry in Ningbo and Wenzhou, the home electric appliance industry in the area of the Pearl River Delta in Guangdong, the textile industry in the area of circum-Taihu and etc. Zhejiang is famous for its clusters of small & medium-sized enterprises, such as the low voltage apparatus in Liushi, ties in Chengzhou, net rack in Xiaoshan and etc.. In 2004, Zhejiang had more than 150 clusters whose total production value exceeded 1 billion yuan, among which 30 exceeded 10 billion and 7 exceeded 20 billion yuan. Thus it can be seen that there is a natural inherent relation between the development of small & medium-sized enterprises and the Industrial clusters.

2.2 The advantages for small & medium-sized enterprises in joining international competition as clusters

Joining the international competition is helpful for the small & medium-sized enterprises to overcome their defects and thus generate competitive advantages.

2.2.1 Industrial clusters can help to improve the production efficiency of small & medium-sized enterprises

The clusters can help to obtain scale of economy in a certain industry in a specific region because the small & medium-sized enterprises cooperate with each other and thus form a loosely united cluster. Correspondingly, the cluster explores a larger market demand for specialized products and services. Scale of economy and opportunities of survival make the enterprises enter a benign circle and the efficiency of the whole cluster will be well improved.

2.2.2 Industrial clusters can help small & medium-sized enterprises to share the same brand

Most of China's small & medium-sized enterprises have weak brand consciousness and they can not afford for expensive advertising and establishing a brand. However, clusters can utilize the population effect and increase the advertising investment and establish their cluster brand. All the enterprises within the same cluster can share the cluster brand and benefit from it. Compared with the single brand of a certain brand, the cluster brand is more living and effective because it is the essence of all the enterprises in the cluster. The small & medium-sized enterprises can make the best use of the cluster brand in exploring international market. They cannot only distribute their products through wholesalers, but also can establish monopoly sale through franchised stores and thus gain the advantage of vertical integration.

2.2.3 Industrial cluster can help the small & medium-sized enterprises to reach information sharing and gain advantage of information

Due to the geographical nearness, the enterprises in the cluster can share the information about the products, market and competition in a convenient way. The cluster can establish one information center focusing collecting and processing

information. They can also set up offices abroad and get the first-hand information and send it back to the enterprises. Of course, all the enterprises will share the cost of it. In this way, the enterprises of the cluster will easily gain information advantage in an economic way and defeat the small & medium enterprises not belonging to any cluster.

2.2.4 Industrial cluster of small & medium-sized enterprises can help to develop core business and obtain core competing power

In the market competition, the industrial clusters are usually characterized by specialized industry with the cluster strategy of “one village, one product” and “one town, one industry” (see table 1). The enterprises do not take an all-out attack, but select one specific series of products, or become an important sub-contractor in the product value chain of transnational corporations. Each of the enterprises concentrates on its core business, focusing on the business at which it is best. In this way, the small & medium-sized enterprises of the same cluster have different advantages, different segmented markets with different specialties. And the enterprises can find their positions in the global supply chain and develop their core competing power.

2.2.5 Industrial cluster can help the small & medium-sized enterprises to strengthen the strain capacity and the ability to withstand risks

The industrial clusters provide opportunities for the small & medium-sized enterprises to develop together and help to reinforce the tie and relationship with the large corporations and thus strengthen their ability to withstand the risks.

In general, industrial clusters can help the small & medium-sized enterprises to bring their own advantages into play, foster strengths and circumvent weaknesses to find their own position in international market.

3. The starting points for clusters of small & medium-sized enterprises to realize successful internationalization

In order to enter the industry chains of transnational corporations and realize their successful internationalization, small & medium-sized enterprises must pay enough attention to the following:

First, the clusters must definite their goals and positions in exploring global market based on their own regional industrial characters and their advantages. If China’s industrial clusters of small & medium-sized enterprises want to reach the target of internationalization, they have to choose a unique way and take their own specific advantages to enter the global market, which requires that the clusters should develop their own industry with uniqueness and build their own brand reputation. The key point of forming the characteristics of industrial clusters requires that the administrative department of clusters should not only utilize their specific material resources of their region, but also make their cultural resources integrated with the industry and develop a localized industrial environment, which can not be imitated by others. Meanwhile, technological innovation should be enhanced to support the regional brands. After gaining the advantage of regional brand, they could easily find their way of internationalization.

Secondly, the enterprises should adjust their production according to the market demands and the need of key customer. The enterprises in the cluster must get rid of their traditional mode of arranging production by plan. Instead, they should arrange production according to what the international customers demand, that is to say, establishing customer-oriented system. In cooperation with multinational corporations, high product quality and good credit standing are very important. The enterprises must keep contacted with large customers in order to develop supporting industry.

Thirdly, the enterprises should perfect the intermediary service system to foreigners and improve the services. The institutes of intermediary service system to foreigners plays very important role in dealing with multilateral affairs and supporting exploring international market. First, they are very important channel for the government to help the native enterprises indirectly exploring international market. Next, they play very important role in helping the native enterprises with complaining and defending affairs, such as anti-dumping, anti-subsidy, protection and etc. Then, they can help collecting information about other members’ discriminatory action towards China’s enterprises. Finally, they can provide information of international market, human resource training.

Fourthly, the role of government should be well defined and government support should be made best use of. International competition is not only just between enterprises, but between governments which the clusters and foreign market. Therefore, the government plays an irreplaceable role in helping the native enterprises exploring international market. First, the government should adjust its industry policy, taking the strategy of industry cluster into serious consideration. Secondly, the government should provide perfect community services and improve the local infrastructure, improving the local industrial environment.

Finally, the cooperation between enterprises of the same cluster should be reinforced and the overall strength of the cluster should be enhanced. In the developing of the enterprises of the same cluster, coordination is required in order to make them cooperate with each other and therefore synergistic effect can be brought. The coordination refers to two things: coordination between entrepreneurs and administrative coordination, which can help develop a good environment within the cluster and ensure the overall capacity of the enterprises in the global supply chain.

References

Liang, Wenchao.(2003).*Management of Small & Medium-sized Enterprises*. Wuhan, Publishing House of Wuhan University.

Sheng, Shihao & Zheng, Yanwei. (2004). *The Industrial Clusters of Zhejiang and regional Economic Development*. Beijing, Publishing House of Qinghua University.

Wang, Chuanying. (2005). *The Social Economic Net and Development of Small & Medium Enterprises*. Beijing, Publishing House of Economic Science.

Wang, Jici. (2001). *The Space of Innovation—Industrial Cluster and Development of Suburbs*. Publishing House of Beijing University.

Xiong, Aihua. (2005). *A Study on Private Enterprises' Joining Global Supply Chain Based on Industrial Cluster*. Journal of Shandong University. 6

Zhao, Xiao & Hou Juan. (2005). Thought about China's Enterprises Going Abroad. [Online] Available: www.sina.com.cn. (March 28, 2005)

Table 1. The geographical distribution of industrial clusters in Guangdong and Zhejiang

Guangdong Province		Zhejiang Province
Zhongshan	Guzhen Town: illumination Xiaolan Town: Hardware Shaxi Town: Clothing	Wenzhou: Shoes, clothing, glasses Yiwu: Smallware Shaoxing: Textile, chemical fibers
Nanhai	Jinsha Town: Hardware Pingzhou Town: Shoemaking Luolin Town: Leather Gongyao Town: Toys Xijiao Town: Textile Lundun Town: Woodworker	Yongkang: Hardware Haining: Feather, clothing Yuyao: Light industry, molds Yinxian: Clothing Fenghua: Clothing
Shunde	Lecong Town: Furniture Humen Town: Clothing	Cixi: Fishhook, Plush toys Yongjia: Button, pump valve Luqiao: Household smallware
Dongguan	Houjie Town: Furniture Dalang Town: Wool Textile Shilong Town: Electronics Shixie Town: Electronics Zhangmutou: Real Estate	Chengzhou: Ties Jinxiang: Band, packaging Datang: Hosiery Ouhai: Valves
Foshan	Shiwan Town: Ceramics	Liushi: low voltage apparatus Taizhou: Fine chemicals