ABSTRACT. For some time believed to be inferior to Wholly Foreign-Owned Enterprises, Joint Ventures have become a popular vehicle for foreign market servicing. Although there are various proponents of the joint venture strategy as a means of enabling SMEs with limited productive resources and/or market knowledge to enter international markets, relatively few have focused on the actual joint venturing activities of SMEs. This article examines the activities of 9 U.K. and 12 German SMEs that have joint ventures in China. Based on a questionnaire survey and in-depth case interviews, it reveals that the initiatives appear to have been successful but that they are not without their problems and in many ways the experiences of the firms involved seem similar to those of the large multi-national enterprises. It argues that the key to success appears to be the choice of the joint venture partner and concludes that, given the limited resources of small firms, assistance is required to help them locate and select appropriate partners.

1. Introduction

Globalisation has been a major trend of the 1990s and firms that felt secure within national boundaries are now facing both increasing international competition and market opportunities. Whereas in the early 19th century only about 1 per cent of all manufactured goods were traded internationally, in the 1990s this increased to approximately 15 per cent and in the mid 1990s world trade was growing in excess of 8 per cent per annum, compared with a 3.7 per cent annual growth in economic output. As a consequence, firms have become more international in outlook and committed to global markets. However, research demonstrates (Barkema et al., 1996) that this applies in the main to large firms (defined here as those with 500 or more employees) rather than to small and medium-sized enterprises (SMEs). While some SMEs are “born global”, often SMEs lack the resources necessary to internationalise and traditionally they have appeared reluctant to engage in global business activities. When they have, exporting has been the predominant activity (Cavusgil, 1980; OECD, 1981; Stratos, 1990; Mulhearn, 1994; Vatne, 1995) and commitment to Foreign Direct Investment (FDI) has been somewhat limited (Buckley, 1983; Dunning, 1993; Acs and Preston, 1997), when compared with both large firm FDI and the export activities of SMEs (Albaum et al., 1992).

Between 1986 and 1993, worldwide FDI grew at 14.6 per cent and it continues to be a driving force in the globalisation process (UNCTAD, 1997). Even so, it is the large firms that have been the main drivers (Fujita, 1995; Buckley, 1997; Eden et al., 1997) though there is evidence suggesting increased FDI activity by SMEs (Mulhearn, 1994; Fujita, 1995; Kohn, 1997; Reynolds, 1997). Not surprisingly, perhaps, research into such activities has been somewhat limited. Traditionally, students of international business have believed that success in foreign markets is dependent on size (Gomes-Casseres, 1997) and according to Campbell (1997), the concept of the global small firm is an inherent contradiction since the main driver of globalisation (scale economies) does not apply to SMEs. As a consequence, researchers such as Rugman et
al. (1985); Robock and Simmonds (1989) and Young et al., (1989) have argued that SMEs cannot be multinational enterprises (MNEs) and that an MNE is a large firm. While there is no uniformly accepted definition of an MNE, most definitions stress that a MNE must possess and control assets in a foreign country (Buckley and Casson, 1976; Teece, 1981) and must engage in either overseas production (Caves, 1971; Buckley and Casson, 1976; Hood and Young, 1979; Teece, 1981, 1985; Rugman et al., 1985; Robock and Simmonds, 1989; Dunning, 1993) or overseas marketing (Young et al., 1989). Thus, in theory at least, there is no reason why a SME cannot engage in foreign direct investment and be a multi-national enterprise.

It would seem, though, that SMEs do face considerable barriers when attempting to engage in FDI and are more likely to fail than large firms (Buckley et al., 1988; Acs et al., 1997; Eden et al., 1997). This stems from their limited resources, in particular their limited financial, managerial and information resources and their attitude to risk. Such limitations can be overcome, however, as Buckley (1979) has demonstrated and many initially unsuccessful firms subsequently go on to undertake successful foreign investments (Buckley et al., 1988). In such circumstances, the Joint Venture (JV) appears to be particularly important. As Hennart and Reddy (1997) discovered in their study of a sample of Japanese investments in the United States, the JV can be seen primarily as a device to gain access to resources embedded in other organisations and, according to Gomes-Casseres (1989), as a means of acquiring local management expertise and connections in order to facilitate fast entry into new markets. Although there are various proponents of the JV strategy as a means of enabling SMEs with limited productive resources and/or market knowledge to enter international markets (Harrigan, 1985; Contractor and Lorange, 1988; Oslund and Cavusgil, 1996; Buckley, 1997; Gomes-Casseres, 1997), relatively few have focused on the actual joint venturing activities of SMEs (Connolly, 1984; Kaufmann, 1995; Donckels and Lambrecht, 1995).

2. Aims and methodology

Against this background, the article examines the proposition that the joint venture strategy is a means of overcoming the traditional restrictions facing SMEs that wish to internationalise. Thus the overall aim of the study is to investigate whether, and to what extent, the joint venture supports the internationalisation efforts of SMEs. The specific objectives of the article are to:

(i) identify the characteristics of SMEs adopting the joint venture strategy by applying the frameworks of Beamish and Wang (1989) and Beamish (1993);

(ii) determine the experiences of SMEs that have entered into joint ventures, following a framework developed from the works of Harrigan (1984), Datta (1988) and Fan (1996).

To meet these aims and objectives, the article examines the experiences of U.K. and German SMEs that have developed joint ventures in the People’s Republic of China. The selection of China as the case region is based upon the fact that since the introduction of its “open door” policy in 1974, the Chinese authorities have determined that to achieve the country’s modernisation, Foreign Direct Investment is required to provide the missing capital, technology and management skills (Tai, 1988; Grub and Lin, 1991) and to facilitate access to international markets (Child, 1994). Accordingly, in July, 1979 the equity Joint Venture Law was passed. This permitted the formation of joint ventures and since then, China has become one of the major importers of technology. By the end of 1996, the Government had approved something in the order of 283,793 foreign-funded ventures with a contractual investment of some US$469.3bn (£300.8bn). Clearly, most of these have been undertaken by large multinational enterprises and most studies have investigated the China investment undertaken by such organisations (Kaiser et al., 1996), despite the fact that SMEs are seen to be of increasing importance to the development of the Chinese economy (Anyansi-Archibong, 1989; Danenburg and Tan, 1989). However, Wu (1993), in his study of European foreign direct investment in China, has drawn attention to the fact that less experienced firms are more likely to enter China through joint ventures, while Au and Enderwick (1994) have examined the Chinese joint ventures of New Zealand SMEs and Leung and Yeung (1995) have investigated the negotiation strategies of 168