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International Marketing: Emerging Markets

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INTERNATIONAL MARKETING AND EMERGING MARKETS: AN INTRODUCTION TO THE AIM VOLUME 21

The global financial and economic crises have accelerated the rise of emerging markets in the global economy. In fact, the BRICs (i.e., Brazil, Russia, India, and China) have become the engine of global economic growth in the past two years when the developed economies were struggling to regain their growth. China became the largest exporter in the world in 2009 and has just overtaken Japan in mid-2010 to become the second largest economy in the world. India has made huge stride in attracting MNCs' investment and is poised to become the main destination of business process outsourcing. Brazil has regained its confidence as the largest economy in South America and as a major economy in the world. After struggling in the face of oil price collapse in 2008, Russia is back on track with robust growth, thanks to the rebound of oil price. Even outside the BRICs, many developing economies are doing very well. For example, Turkey, Vietnam, Indonesia, Thailand, Argentina, and several African countries have seen their growth rates surpassing 5% per year for several years. There seems to be a fast shift of global economic power to the developing world, especially to the BRICs.

The shift of global economic power to the emerging markets has presented a number of fundamental challenges to managers of multinational corporations (MNCs), as well as to the academic researchers in international marketing. With the fast emergence of the middle-market segments across the emerging markets, the traditional competitive advantages of MNCs may not offer them much when it comes to serving the fast expanding middle-market segments' demand in the emerging markets. MNCs' traditional competitive advantages include the state-of-the-art technology, the highest product quality, the latest product design features, the dominant global brand names, and premium prices for their products and services. Such skills and capabilities allowed the MNCs to enter and dominate the upper market segments across the developing world in past few decades. Indeed, MNCs are still enjoying the premium upper market segments in the developing world today.

Yet, the traditional competitive advantages of MNCs may not be readily applicable to serving the middle-market segments' need in the emerging markets. Owing to their fast rising but still modest disposable income, middle-market consumers are increasing demanding high-quality products and services at affordable prices. They cannot afford to buy products or services that are of highest quality and that have leading-edge product features and designs. But they do want the products and services that are of much better quality than those offered to lower market segments by local firms. Unless MNCs can figure out a way to revamp their business model to bring down the costs substantially while maintaining product quality, they risk losing out in the competition to serve the middle market segments in the emerging markets. In some industries, some local competitors already seized the opportunity to become successful in serving the middle market segments in Brazil, India, and China. This has created a major challenge to MNCs when they seek new growth opportunities.

The explosive growth of the middle-market segments across the emerging markets is not an opportunity that MNCs can simply ignore. If and when this trends continues in the emerging markets, the middle-market segments will become the largest market in the world both in number of consumers and perhaps in total purchasing power in the next decade or two. If it fails to figure out quickly how to revamp its business model to meet the middle-market segments' demand and preferences, a world-class MNC today may become a minor player in the global market in the future. No responsible managers of MNCs can afford to let this happen. Yet, the tasks of figuring out a new business model that is suitable to serving the middle-market segments are by no means easy. There simply is not much knowledge of how to do it. MNCs managers are used to emphasize the leading technology, highest quality, dominant global brands, and premium prices. After all, that is what they did well to advance to the current management positions. To undo what they have been trained for and made successful is simply not natural for MNC managers. To meet the challenge, MNC managers badly need better knowledge about the emerging market consumers and businesses.

To academic researchers in international marketing, understanding consumers, and businesses in the emerging markets is equally challenging. Owing to the significant differences in cultures, political and legal environments, and economic environments, existing theories about firm's internationalization, branding building in the global market, and strategies for conquering the markets are simply not readily applicable to explain the consumer and business behaviors in the emerging markets. For example, when firms from emerging markets enter the global markets, they face well-entrenched MNCs in almost all major industries that have better technology, higher product quality, dominant brands, and greater financial resources. The gradual learning approach to internationalization that is theorized in the current literature can hardly explain the internationalization of emerging market firms. Similarly, building a global brand based on leading technology and product quality and heavy investment in marketing may not be a feasible strategy for emerging market firms to adopt or follow.

Thus, new theories and new research must be developed in order to understand and explain the middle-market segment consumers' behaviors and emerging market firms' strategy. This is a tremendous opportunity for international marketing researchers to make ground-breaking contributions to the literature. There are so many emerging issues in the emerging markets that need to be researched and that need new theories to explain. For example, the following issues are intriguing to many international marketing researchers: How do consumers in middle-market segments behave? What are they unique preferences? How do they respond to various marketing stimuli? How do firms' from emerging markets enter the global markets? How can they develop their global brands in the case of entrenched global brands of MNCs? What determines the export performance of firms from the developing world? How does retailing sector evolve in India, China, and Brazil?

Responding to the urgent needs of the management and the academics to understand the emerging market consumers and businesses, we have developed this special volume of *Advances in International Marketing* (AIM) to tackle some of the issues identified above. The papers published in this volume are contributed by a large number of academics from around the world. Initially, the Consortium for International Marketing Research (CIMaR) and the University of International Business and Economics (UIBE)'s Business School organized a joint conference in Beijing in late 2009 that was focused specifically on the international marketing in emerging markets and by firms from emerging markets. Dozens of papers were submitted to the conference and went through a rigorous review process. From the submissions, 15 papers were selected and went through a revision process. The 12 successful chapters are now selected for publication in this special volume of AIM.

The 12 chapters in this volume focus on a wide variety of issues about the emerging market consumers and businesses from a wide selection of countries/regions such as China, India, Brazil, Malaysia, Hong Kong, and Africa. Collectively, they shed significant new insight into the consumer and business behaviors in the emerging markets and laid a solid foundation for further theory development about the important issues in international marketing in emerging markets. We are very excited about the publication of these chapters. We believe that readers will be well informed by them and that they will spur a lot of exciting future research on issues that are so important to both MNCs and firms from emerging markets.

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Editors

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AWAKENING DRAGONS: AN EXPLORATION OF THE INTERNATIONALISATION OF CHINESE SMES FROM THE ELECTRONICS SECTOR

Sharon Loane and Jim Bell

ABSTRACT

As part of their growth strategy, many firms choose to expand internationally. Such expansion is an especially important decision for small- and medium-sized enterprises (SMEs). These SMEs are vital to China's economy and have grown in importance since the reform and opening-up, measured in terms of size, number, financial status, or profitability. In addition, the Chinese electronics sector plays an important role in the economy. This inquiry explores the internationalisation behaviour of 50 Chinese electronics SMEs. The findings are presented and implications drawn for future research, along with those for policy makers and practitioners.

Keywords: Internationalisation; Chinese electronics industry; small and medium enterprises (SMEs).

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INTRODUCTION

Recent literature on international new ventures (INVs) and 'born global' firms has recognised the inherent complexity of operating in an increasingly global business environment and points to factors that facilitate rapid internationalisation. Most notable are the emergence of new communication and process technologies, increased trade liberalisation, regional economic integration, and the growth of international networks (Knight & Cavusgil, 1996; Knight, 2000; Petersen, Pedersen, & Sharma, 2001). As the face of the world changes, firms both large and small must also face change in their business environment, and many choose to expand their geographic scope from domestic to foreign markets. Traditionally, small- and medium-sized enterprises (SMEs) restricted their activities to the region of their location, or stayed within their national boundaries (Pleitner, 1997). Today many are active in one or two world regions and are therefore international or regional players. International expansion is an especially important decision for SMEs, which traditionally have a small financial base, a domestic focus, and a limited geographic scope (Barringer & Greening, 1998).

SMEs make substantial contributions to national economies (Poon & Swatman, 1999) and are estimated to account for 80% of global economic growth (Jutla, Bodorik, & Dhaliqal, 2002). SMEs have been playing a progressively more important role in international business since the beginning of the past decade (Bell, 1995; Oviatt & McDougall, 1994). By the late 1990s, about a quarter of SMEs around the world derived a major portion of their revenues from foreign countries (Oviatt & Mc Dougall, 1997).

Since China's economic reform and accession to the World Trade Organisation, nowhere is change among firms, particularly SMEs, more apparent. China's integration with the global economy has contributed to sustained growth in international trade. Both its exports and imports have grown faster than world trade for more than 20 years. As China's trade with the rest of the world has deepened, its composition and geographical pattern have also shifted. Its overall share of exports to industrial economies has increased and become more diversified (Rumbaugh & Blancher, 2004). Where 15 years ago China was primarily an exporter of low-tech products such as apparel, toys and footwear, today it has become the world's largest exporter of electronics (OECD, 2005). The country's electronics production grew at a remarkable rate of 24.8% between 1992 and 2005. As a result, its share of world electronics production has risen from 1.9% in 1992 to 18.4% in 2005. With a value of production of US$260.1 billion, it has surpassed that of the European Union and Japan, lagging just behind the electronics production value of the United States (Van Assche & Gangnes, 2007). China's emerging system of capitalism has its own special institutional and cultural characteristics (Boisot & Child, 1996; Child & Tse, 2001), which raises the possibility that an examination of Chinese internationalisation may indicate the need for some extension of existing theory (Child & Rodrigues, 2005).

This inquiry explores the internationalisation of 50 electronics SMEs drawn from five sectors: audio/visual electronics, medical electronics, small household appliances and white goods, automotive electronics and measurement meter electronics. The following sections present a synthesis of the literature, the research focus and the methodological approach. Finally, the findings are presented and discussed.

SYNTHESIS OF THE LITERATURE

Internationalisation Stimuli

The recent literature on INVs and 'born global' firms, while recognising the inherent complexity of operating in an increasingly global business environment, points to factors that facilitate rapid internationalisation. Most notable are the emergence of new communication and process technologies, increased trade liberalisation, regional economic integration and the growth of international networks (Knight & Cavusgil, 1996; Knight, 2000; Petersen et al., 2001).

The pivotal role of key decision-makers within firms has also been widely recognised in the extant export behaviour and firm internationalisation literature (Reid, 1983; Miesenbock, 1988; Aaby & Slater, 1989; Leonidou & Katiskeas, 1996; Zou & Stan, 1998). Indeed, there is widespread agreement that subjective characteristics (such as attitudes, perceptions and personality) and objective characteristics (such as knowledge, experience and networks) influence decision-makers' views of the risks involved in entering new export markets.

Whereas entrepreneurs are influential change agents with regard to internationalisation, and actually make the decision to go international, there are also several factors involved. Katsikeas and Piercy (1993) categorized motives into several broad areas: decision-maker characteristics, firm-specific factors, environmental factors, firm characteristics and ongoing export motives. Crick and Chaudhry (1997) distinguished between internal and external stimuli to classify factors into two categories: internal change agent and external change agent. They suggested that the internal change agent – either the entrepreneur (owner/manager) or the senior management team – is the most important factor, because of having the final say as to whether or not the company will commit to international activity. Katsikeas and Piercy (1993) have provided a useful classification of internal firm-specific factors found in previous studies to motivate firms to export: differential firm strengths (Cavusgil & Nevin, 1981; Cavusgil, Bilkey, & Tesar, 1979; Wiedersheim-Paul, Olson, & Welch, 1978); accumulated unsold inventory (Johnston & Czinkota, 1982; Sullivan & Bauerschmidt, 1988); economies resulting from additional orders (Kaynak & Kothari, 1984; Sullivan & Bauerschmidt, 1988) and available production capacity (Diamantopoulos, Schlegelmilch, & Allpress, 1990; Johnston & Czinkota, 1982; Wiedersheim-Paul et al., 1978).

With regard to 'external change agents', Simmonds and Smith (1968) suggest that it is important whether or not the first order was unsolicited. However, Simpson and Kujawa (1974) claim that although an unsolicited order may be significant, it alone is not sufficient for export initiation, and they suggest that other factors also affect exporting behaviour. For example, Wiedersheim-Paul et al. (1978) state that some other factors can have a positive effect on export behaviour, such as receipt of fortuitous orders and the effect of government including chambers of commerce, industrial associations, banks, government agencies and other firms. Johanson and Vahlne (1977) also identified the economic climate and trading conditions in the domestic market, internal market size and the location and proximity of the firm to export markets as important.

Exporting stimuli can also be classified according to their proactive/reactive nature (Johnston & Czinkota, 1982; Piercy, 1981). Proactive stimuli are the 'pull factors' that compel firms to exploit their unique internal competences (Leonidou, 1995); reactive stimuli are 'push factors' that explain the firm's export engagement as a response to external environmental pressures (Johnston & Czinkota, 1982). Boisot (2004, p. 6) argues that Chinese firms may be different in conflicting with extant internationalisation theories, stating that 'many Chinese firms will not be moving abroad to exploit a competitive advantage that was developed in the domestic market, but to avoid a number of competitive disadvantages incurred by operating exclusively in the domestic market'. Indeed, a range of disadvantageous domestic conditions exist that offset and limit the opportunities normally offered by a large domestic market (Boisot, 2004: Child & Rodrigues, 2005). These include regional protectionism, limited access to capital that prevents investment in plants of optimal scale, lack of developed intellectual property rights that limits access to state-of-the-art technologies, under-provision of training and education that limits access to skilled human resources, poor local infrastructure that increases transport costs and regional markets that are fragmented by provincial and municipal protectionism. Moreover, electronics and white goods SMEs face strong competition from many leading international brands. Such competition combined with overcapacity has driven down profit margins. Therefore, it may be the case for Chinese SMEs working in the electronics sector that manufacturing for foreign markets becomes more attractive.

SME Internationalisation

Internationalisation has been depicted as a gradual and incremental process, which assumes a time span. Owing to rapid globalisation, the time span has shrunk significantly. Thus, SMEs often become 'instant internationals' (Oviatt & McDougall, 1997). Following a significant breakthrough, entrepreneurs often develop a global focus from the beginning to obtain first mover advantages and to exploit new processes or new technologies immediately (Bell, McNaughton, & Young, 2001). Oviatt and Mc Dougall (1997) explain that INVs must internationalise from their inception or shortly thereafter in order to survive, as they face high start-up costs, a small domestic market and short product life cycles. Furthermore, international competition, particularly in knowledge-intensive industries, is so high that new companies internationalise instantly or do so shortly after establishment, typically within two to five years (Oviatt & McDougall, 1994; Bell et al., 2001).

Market selection does not always depend on geography; instead, many companies operate in very specialised 'niches' where the home market is too small. The ability to serve niche markets is often due to a major innovation in terms of either a product or a process (Bell, McNaughton, Young, & Crick, 2003). The firm gains a competitive advantage that enables it to offer value-added products (McKinsey & Co. 1993). It has even been observed that some SMEs, especially knowledge-intensive firms, ignore the home market completely and go on lead markets immediately after establishment or go on the home market and international markets at the same time (Bell, 1995). Bell (1995) further observes that SMEs would enter international markets by following their domestic clients, rather than considering the psychic proximity of the market.

In fast-changing environments such as that experienced by Chinese SMEs, the 'learning advantages of newness', or how quickly firms learn to adapt, can often play a pivotal role, in comparison to a firm having acquired