

Analysis of Internationalization Path of Chinese Enterprises based on UPPSALA Theory

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Abstract. From the theoretical perspective of UPPSALA model, this paper divides the internationalization of enterprises into three stages. By analyzing the internationalization process of Geely, Midea Group and Shuanghui, this paper explores the main obstacles and breakthrough paths faced by enterprises at different stages.

Keywords: UPPSALA model; internationalization of enterprises; breakthrough paths.

1. Introduction

In recent years, internationalization has become an important grasp for Chinese enterprises to catch up with the multinational corporations in developed countries. Chinese enterprises' overseas investment has made great progress. Outward FDI was only \$2.85 billion in 2003, which soared to \$129.83 billion by 2018. However, in the process of internationalization, Chinese enterprises show serious polarization. Some enterprises achieved leapfrog development, while others didn't realize their original strategic intentions.

Internationalization is of great significance to both countries and enterprises. Therefore, on the road of internationalization, the problem of how to break through the obstacles at different stages and achieve healthy development of enterprises needs to be solved urgently. Based on the literature review of domestic and foreign scholars, this paper will build a three-stage theoretical framework for enterprise internationalization development based on UPPSALA theory. Then, I will select three enterprises as typical representatives for analysis and form the conclusions.

2. Division of Internationalization Stages based on UPPSALA Theory

Enterprise internationalization has been a hot discussion topic by scholars all over the world since the last century. And the theory of progressive enterprise internationalization (UPPSALA model), put forward by Johanson and Vahlne (1977) has been supported by many empirical studies. Uppsala model considered that there are two typical characteristics of enterprise internationalization. Firstly, in terms of entry mode, enterprises should follow the order of indirect export, direct export, establishment of overseas sales distribution, overseas production. Secondly, when choosing the target market, enterprises choose the markets of neighboring countries, and then expand to the markets of distant locations.

In fact, most Chinese enterprises follow this theory. Generally, the internationalization of Chinese enterprises can be artificially divided into three stages. The first stage is the preparation stage. Being threatened by influx of foreign capital and expansion of enterprises in this industry, Chinese enterprises begin to realize the importance of internationalization and expand to neighboring Asian countries. The second stage is steadily advancing. With the accumulation of internationalization experience and considerable capital returns from overseas markets, enterprises are no longer satisfied with the markets of surrounding countries, and the international territory is further expanded. The third stage is the stage of global expansion. At this stage, enterprises are expanding rapidly overseas, and their territory extends to the whole world.

3. Case Analysis

3.1 Case Company Background

This paper chooses three representative manufacturing enterprises to analyze their performance in various stages. Midea Group is a comprehensive enterprise which is one of the largest production and export bases of white household appliances in China. Shuanghui Group is a large-scale food group mainly engaged in meat processing. Geely Group mainly produces off-road vehicles, cars and other models, which is the first in China's private automobile manufacturing industry.

3.2 Three-stage Analysis of Case Company

3.2.1 Stage of Preparation: "Laying a Good Basic Skills" to Consolidate the Foundation of Internationalization.

At the beginning of internationalization, Chinese enterprises first choose to expand to Asian countries. On the one hand, the proximity of these countries to China greatly reduce the cost of expansion. On the other hand, Asian people's similar cultural background and habitual preferences provide good conditions for product sales. But enterprises face unprecedented challenges at this stage.

3.2.1.1 Poor Access to Information: Establishes Information Search Mechanism.

The first problem in formulating internationalization strategy is the poor information about the target market demand gap and the competitiveness of their own products.

Media firstly built its production base in Vietnam. But it is not clear how well Vietnamese consumers accept Media's products and how big is the market capacity of Vietnam. Therefore, Media adopted the "first market, then factory" approach. Media began to do market research in Vietnam in 2001. Over the next five years, Media gradually put its products into the Vietnamese market but did not build factories in Vietnam until 2007. The pace of Media's internationalization is very cautious, but also very steady.

3.2.1.2 Lack of Experience: Form International Competition Consciousness

At the beginning of internationalization, enterprises often lack the experience of negotiating cooperation with foreign enterprises and adjusting their organizational structure. All these require enterprises to form international competition consciousness to accumulate these knowledges quickly.

Before setting up its factory in Vietnam, Media set up a subsidiary company with only five managers for better localization. Media also attached great importance to the recruitment of international talents. In addition, the rapid growth of Media's diplomatic capability helped it gain additional support for its operations in Vietnam.

3.2.2 Steadily Advancing Stage: "Hard Training of Internal Skills" to Solve the Internationalization Problem.

With the expansion of enterprises' overseas market scale, capital and talents are constantly supplemented. However, relying solely on economies of scale cannot help enterprises to win a larger international market. The quality, performance and innovation of products face a severe test. It is a good choice to cooperate with famous enterprises with high technology, but it is obviously difficult to find ideal enterprises only in Asia. Enterprises need to look far into some European countries.

3.2.2.1 High Political and Regulatory Risks: Enhance International Collaborative Capacity.

Although economic globalization is irreversible, in essence, Chinese enterprises are still inseparable from the rigorous scrutiny of technical standards and health standards in the process of entering European countries. They are still suffering from various political and investment barriers. Therefore, it is crucial to enhance international cooperation capacity.

Shuanghui Group's pig breeding link was very weak, which was deeply troubled by high breeding cost, lean meat concentrate and environmental pollution. Smithfield had a complete industrial chain in aquaculture. So Shuanghui Group hoped to acquire Smithfield to enhance its overall strength. However, when the two enterprises carried out M&A transactions, the US government asked SEC to

intervene in the investigation on the grounds of food safety and national interests. In order to complete the acquisition, Shuanghui Group asked professional team to communicate with the American media to obtain positive reports. They also had a deep understanding of American law and finally passed the review.

3.2.2.2 Cultural Barriers are Insurmountable

improve cultural adaptability. There are great differences in language, culture and religious beliefs between European countries and China. Therefore, it is very difficult obstacles and work together for people from different cultural backgrounds to overcome.

Shuanghui successfully acquired all of Smithfield's shares in 2013. However, Shuanghui and Smithfield belonged to different countries and societies, which had great differences in values, customs and other aspects. In addition, one was a traditional Chinese enterprise paying attention to efficiency and incentive mechanism, and the other was a typical western enterprise with scattered management. It is difficult to manage cross-cultural enterprises. To this end, Shuanghui Group set up a culture integration team to listen to the views of both managers and employees, absorbed the reasonable elements of the two corporate cultures, and successfully created a more competitive corporate culture in the process of integration.

3.2.3 Global Expansion Stage

Speed up the Internationalization Process by "Lending Efforts". After the second stage, the internationalization thinking of enterprises has been thoroughly opened up, and it eager to become a high-quality enterprise with strong international influence and social credibility. As a result, enterprises begin to enter the stage of global expansion. At this stage, enterprises are paving large-scale stalls and expanding business areas.

3.2.3.1 Poor Brand Image

towards high-end mergers and acquisitions. A good brand can help enterprises conquer the whole world market. However, in the Forbes Global Brand Value List in 2018, only one Chinese company is on the list, and the gap between China and the champion is extremely wide, so the brand building of Chinese enterprises is imminent.

In 2007, Geely proposed to build the safest, the most environmentally friendly and the most energy-saving car to change its brand image. However, with its small market share and weak technical reserves, Geely could not create a high-end image in a short time. Volvo had a strong technical reserve, and also known as the "safest car in the world", which coincides with Geely's strategic objectives. Therefore, Geely chose to improve its brand strength through the acquisition of Volvo, and through this acquisition, Geely quickly opened up the international market.

3.2.3.2 Great Financial Pressure

seeking government support. In the stage of global expansion, the M&A of enterprises on a larger scale need sufficient funds as guarantee. Otherwise, not only the idea of enterprises cannot be implemented, but also the normal operation of enterprises will be threatened.

When Geely acquired Volvo, one was a 13-year-old "poor boy" and the other was a "rich man" who had accumulated for more than 80 years. How can it achieve "snake swallowing elephant"? Geely tied up domestic sources of capital with the location of Volvo's production base, and harvested a lot of financial support by using the local government's motivation to drive the local economy. At the same time, Geely also secured the guarantee of the Swedish government and signed loan agreements with major banks at home and abroad. Although Geely had very little private capital, it successfully completed its 100% equity acquisition of Volvo through leverage effect.

4. Conclusion and Enlightenment

Combined with the above analysis, enterprises and governments need to make the following efforts for the internationalization of enterprises. The government should establish the social service system, timely announce relevant market and foreign trade policy information, and support Chinese

enterprises to actively face anti-dumping, countervailing investigation, anti-discriminatory litigation and investigation. At the same time, the government should also increase the support of fiscal, tax, foreign exchange and financial policies to help enterprises go further. Chinese enterprises should enhance their core competitiveness in an all-round way and learn to realize the rapid development of internationalization by means of external forces. If the enterprise strategy can be tied up with local economy and public interests, the internationalization of enterprises will be much easier.

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