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Internationalization of Enterprise Resource Planning Vendors:

A Case Study of SAP and Oracle in the Chinese High-End Market

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ABSTRACT

International business theory suggests that multinational corporations are usually disadvantaged compared to local firms when competing in a host market. However, we find that foreign enterprise resource planning (ERP) vendors in the Chinese high-end ERP market perform significantly better than local vendors. To understand this gap, the authors first analyze the ERP business model and its four characteristics as a service and use Dunning's OLI paradigm to specify the ownership-specific, internalization-incentive, and location-specific advantages (O-, I-, and L-advantages) required for foreign ERP vendors to compete in the host country's high-end market. Then, after conducting case studies of the two foreign vendors with the highest share in the Chinese high-end ERP market, SAP and Oracle, they confirm that the O-advantages from strong brand and reputation, high research and development capabilities, professional partners, I-advantages from wholly owned subsidiaries, and L-advantages from economically developed regions cause SAP and Oracle to excel in the Chinese high-end ERP market.

KEYWORDS

Chinese High-End Market, Dunning's OLI Paradigm, Enterprise Resource Planning, Information and Communication Technology Service, International Business, Multinational Corporation, Oracle, SAP

INTRODUCTION

In the early 1990s, the popularity of the Internet and the development of information and communication technology (ICT) brought enterprise management into the information technology era. The construction of an information management system is a complex undertaking for most nonprofessional enterprises, so most choose ICT service outsourcing to external professional ICT service providers to help them implement information management. Many companies favor enterprise resource planning (ERP), customer relationship management (CRM), supply chain management (SCM), and other enterprise application software (EAS) as representative information management

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systems, which provide benefits for business operations management. For example, ERP can improve the coordination of departments; increase business efficiency; reduce operating costs such as inventory management, production, and marketing; facilitate daily management efficiency; provide faster access to decision-making and management information; and better plan business strategies (Al-Mashari et al., 2003; Amoako-Gyampah, 2007; King, 2005; Scott & Kaindl, 2000; Seo, 2013; Umble et al., 2003; Willis & Willis-Brown, 2002). As the demand for EAS expands, the global EAS market is growing rapidly. Subsequently, an increasing number of EAS service vendors are no longer satisfied with serving only local markets and are starting to establish worldwide subsidiaries through foreign direct investment, thus launching their business activities in overseas markets.

Chinese companies have recently witnessed a significant increase in the demand for ERP services to improve their business processes and increase productivity. Given the immense potential of the Chinese market, an increasing number of foreign ERP vendors have begun to enter the country. Although China's domestic ERP software has a market share of more than 70%, its primary market is dominated by small- and medium-sized enterprises. In the high-end ERP market, dominated by large enterprises and multinational corporations (MNCs), the share of foreign ERP vendors is far greater, with SAP and Oracle ranking first and second at 33% and 20%, respectively, exceeding China's leading domestic ERP vendors, Yonyou at 14% and Kingdee at 6%[1].

Traditional international business theory posits that MNCs will face various difficulties when competing with local firms in unfamiliar overseas markets and must take advantages to overcome these difficulties to succeed there (Hymer, 1960). The barriers to entry are generally significant in high-end markets. This raises a question as to how foreign ERP vendors achieved success in China's high-end markets. Furthermore, what advantages have they possessed? To answer these questions, this in this study, we first use Dunning's OLI paradigm to clarify the advantages foreign ERP vendors need to compete in the Chinese high-end ERP market. Then, SAP and Oracle are used as case studies to further identify the critical determinants of their success.

DUNNING'S OLI PARADIGM

Dunning's OLI paradigm is considered the most comprehensive analytical tool for studying MNCs overseas. Dunning (1977, 1993) argued that MNCs must have ownership-specific, internalization-incentive, and location-specific advantages (O-, I-, and L-advantages) to succeed.

O-advantages include the factor endowments, product manufacturing processes, and management skills that MNCs possess, which are either unavailable or difficult for other firms to obtain. Dunning argued that MNCs can only compensate for the cost of operating abroad by having O-advantages to effectively compete with local firms and competitors in the host country. I-advantages mean MNCs have more advantage in exploiting O-advantages by transferring them within the organization rather than trading them in an incomplete external market. MNCs recognize that using international markets to trade their own intermediate products or services is not the best option and that internalization can reduce transaction costs. L-advantages refer to the degree of a favorable market environment in a foreign market compared with an enterprise's home market. This refers to the host country's advantageous conditions in terms of investment environment factors such as the local foreign investment policy, economic development level, market scale, infrastructure, resource endowment, labor, and cost. If a foreign market is particularly favorable to the enterprise's production and operations regarding the market environment compared with the enterprise's home market, then the foreign market will be extremely attractive for cross-border operations.

O-advantages can be used to analyze why companies start an overseas business, or internationalization motivation. I-advantages can be used to analyze how companies enter overseas markets, either through joint venture subsidiaries (JV) or wholly owned subsidiaries (WOS). L-advantages help in analyzing where it is advantageous for MNCs to start business. Therefore, we

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