

# Compromise Theory of Transnational Operation of Chinese Small and Medium Enterprises and Empirical Analysis Under Economic Globalization

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## ABSTRACT

*Transnational operation of Chinese small and medium enterprises is an inevitable trend of enterprise's survival and development under the condition of economic globalization. Currently, transnational operation of Chinese small and medium enterprises exist many issues needed to be addressed due to a lack of effective theories and on the basis of analysis of "comparative advantage," "Internalization advantage," and "The advantages of geographical location" of China's medium and small enterprises, trying to propose "compromise" theories of transnational operation of Chinese small and medium enterprises, and empirical analysis, followed by discussion on the countermeasures of transnational operation of Chinese small and medium enterprises.*

*Keywords: Chinese Enterprises, Compromise Theory, Economic Globalization, Small and Medium Enterprises, Transnational Operation*

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## 1. INTRODUCTION

From the development of global economy, economic globalization, and information and networking have become the trend of; transnational operation of enterprises is an inevitable trend of economic development of its country. Under these conditions, transnational operation

of Chinese small and medium enterprises with a certain necessity and urgency (Fan & Wang, 2004). However, China's small and medium enterprises transnational management have problems, to be solved. First of all, number of small and medium enterprises real carry out direct investment in overseas very few, and size generally small, this did not match with China's economic development (Tang, 2002). Second, some small and medium enterprises which strength and size expectations are high

DOI: 10.4018/ijsem.2012070104

to develop transnational business (Fu, 2005), but they do not know how to implement in reality. Main reasons are the lack of suitable theory of transnational operation of Chinese small and medium enterprises, which is an important factor that hinder transnational operation of Chinese small and medium enterprises development.

## 2. OVERVIEW OF THE THEORY OF MULTINATIONAL OPERATION AND TRANSNATIONAL MANAGEMENT

Transnational management, refers to the enterprises engaged in production and business activities in two or more countries, including for optimal allocation of management resources in the international context, providing products and services to the international market, as well as beyond the boundaries of the production, sales, procurement, research and development, and service activities (Li, 2002). In other words, transnational management may refer an enterprise carry out business across borders in production and management activities, including transnational procurement, transnational production, transnational sales and international development (Liu, 2005). Multinational operation theory is to answer why enterprises to engage in transnational business activities, how to engage in transnational business activities, as well as where engaging in transnational business activities (Si, 2003, pp. 15-18).

Theoretical circles believe that multinational operation theory was in the 1960 of the 20th century, more than 40 years ago. From the perspective of theory on the development, multinational operation theory is still in theory of "jungle" stage, it is not ripe. To date, there is not have a recognized, the general theory of multinational operations (Zhou, 2006). On the other hand, there are several representative of transnational business theory, such as "monopoly advantage theory," "products life cycle theory," and "internal of theory," they are based

on developed enterprise transnational business activities, they has clear of geographical and time and space constraints, does not full applies China SMEs of transnational business activities.

At this point, is inspired by the Professor Dunning's international production "compromise" theory, in connection with the reality of the transnational operation of Chinese small and medium enterprises, this paper study on transnational operation of Chinese small and medium enterprises of "compromise" theory (Wang, 1999, pp. 31-35).

## 3. "COMPROMISE" THEORY OF TRANSNATIONAL OPERATION OF CHINESE SMALL AND MEDIUM ENTERPRISES

Due to historical and other reasons, China's small and medium enterprises generally do not have "absolute advantage." However, since the beginning of reform and opening, especially in the 1990 of the 20th century, transnational operation of China's SME activities rapid development. After make an empirical analysis on the basis of the transnational operation of Chinese small and medium enterprises activities, we believe that Chinese small and medium enterprises which have a certain "conditions," can implement "going out" strategy, development their activities of transnational management (Liu, 2005, pp. 47-49). This "condition" means "comparative advantage," "internalization advantage," and "locational advantages" and different combinations of three.

### 3.1. Comparative Advantages

"Comparative advantage," refers to varying levels of productivity and production elements abundant country in the world, must have a relatively favorable conditions in terms of production, research and development and marketing. Compared with foreign multinationals, Chinese small and medium enterprises has a large gap both in the level of technical equipment, technology, labor productivity, product quality and grades and in multiple aspects of operational

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