THE INFLUENCE OF PUBLIC POLICIES ON CHINESE SMEs' INTERNATIONAL EXPANSION

Guillermo Cardoza
INCAE Business School
La Garita, Alajuela - Costa Rica
guillermo.cardoza@incae.edu

Gaston Fornes
University of Bristol (UK) and ESIC Business and Marketing School (Spain)
10 Priory Road – BS8 1TU
Bristol – United Kingdom
g.fornes@bristol.ac.uk

Ping Li
Shandong University of Technology (China)
12 Zhangzhou Road – 255049
Zibo - Shandong – China
liping9999@gmail.com

Ning Xu
Nanjing University (China)
22 Hankou Road – 210093
Nanjing – China
xuning@nju.edu.cn

Song Xu
Anhui University of Finance and Economics (China)
Caoshan Road 962 – 233030 – Bengbu City
Anhui – China
aiftxs@163.com

ABSTRACT

Purpose: Despite SMEs' significant contribution to China's social and economic development since the market-oriented reforms in the 1980s, very little has been written about the influence that public policies may have on the expansion of Chinese SMEs.

Design: To contribute to fill this gap this paper analyzes five main factors related to public policies affecting Chinese SMEs' internationalization: i- limited access to financial resources, ii- participation of the government in ownership, iii- access to public procurement contracts, iv- adverse regulatory and inconsistent legal frameworks, and v- availability of assistance on information and knowledge about markets. The data was collected from 497 SMEs and analysed using multivariate regressions.

Findings: The findings show that SMEs in the sample are basing their international expansion on "private" capabilities (which includes transfers from external private sources) rather than on the support from the government (the case for many MNCs). In addition, the perceived barriers for the international expansion of these firms are mainly internal rather than institutional, i.e. no institution-based barrier seems to prevent Chinese SMEs to expand internationally. And there are no main differences in the regions of China where companies are based in terms of public policies or institutions.

Keywords: Chinese SMEs, institutions, public policy, international expansion, emerging markets

INTRODUCTION

How do managers and owners at small and medium-sized enterprises (SMEs) perceive barriers in their international expansion strategic decisions? Do constraints such as restricted access to financing and inefficient government assistance systems hinder the international expansion of Chinese SMEs? Do adverse laws and regulations pose difficulties for SMEs' international expansion? How does the role of Chinese local and central governments' participation in the SMEs' capital and the public procurement contracts affect their decision making process regarding their expansion strategies? Answering these questions is relevant as SMEs account for 60 percent of China's GDP, 66 percent of the country's patent applications, 80 percent of its new products, 68 percent of China's exports, and provide more than 80 percent of total employment (The Economist, 2009). In fact, there are more than 10 million Chinese SMEs that account for 99 percent of the total enterprises and also for 50 percent of tax revenue (People's Daily Online, 2010). Nevertheless, most of the research on Chinese firms has focused almost exclusively on multinational corporations (MNCs)[1] and therefore there is a major gap in the academic literature.

Several books and articles published in recent years have provided a comprehensive overview of the role played by international trade in promoting economic growth and productivity, as well as about the strategies of Chinese multinationals to enter new markets, the effects of the institutional environment on the internationalization process and the role played by regional and national government policies in the international expansion of large Chinese companies (Buckley et al., 2007; Child & Lu, 1996; Fornes & Butt Philip, 2012; Hoskisson, Eden, Lau, & Wright, 2000; Peng, Wang, & Jiang, 2008; Rugman & Li, 2007; Wright, Filatotchev, Hoskisson, & Peng, 2005; Yeung, 2002). In contrast, despite SMEs' significant contribution to China's social and economic development since the market-oriented reforms in the 1980s, scarce attention has been devoted to understand the international expansion strategies of SMEs and this subject remains a relatively under-explored area in the international business (IB) literature and demands more attention.

Specifically, very little has been written about the influence that public policies may have on the expansion of Chinese SMEs, especially considering that firms' strategic options are conditioned by their capabilities and industry environment, and also by the government policies and regulatory frameworks in which they operate (Hoskisson et al., 2000; Peng, 2002; Wright et al., 2005; Yamakawa, Peng, & Deeds, 2008). This is particularly relevant in China where, in spite of the market-oriented reforms, economic activities are still under strict control

[1] After launching the "Go Global" policy in 1999, large state-owned enterprises (SOEs) have expanded internationally with encouragement and financial support from national and local Chinese governments. These companies were encouraged to invest overseas to gain a foothold in foreign markets, to generate foreign exchange and to get access to advanced technologies as well as other strategic assets needed to improve their competitiveness. To this end, the Chinese government created an enabling policy framework for the international expansion of SOEs including financial backing, mainly through low interest loans from state banks, procurement contracts, scientific and technical support from public research universities and R&D centres, and official support to enter into OEM agreements and other types of alliance with foreign companies. In addition, with diverse degrees of state ownership and autonomy, companies such as Lenovo, CIMC and Haier have benefited from public financial support and special conditions to manage their acquisitions and alliances (Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007; Palepu, Khanna, & Vargas, 2006; Rugman & Li, 2007; Rui & Yip, 2008).

by the state and the institutional frameworks are constantly changing (Fornes, Cardoza, & Xu, 2012). Especially, home country institutions such as weak legal and regulatory frameworks, ownership patterns, public funding access, government participation in firms' strategic decision-making process should have an important effect on firms' decision making and affect the output expansion initiatives (Buckley et al., 2007; Yang, Jiang, Kang, & Ke, 2009).

Although these factors have been studied mainly for large state-owned enterprises (SOEs) in China (mostly using theoretical frameworks developed for Western firms (Deng, 2011)), the strategies, drivers and obstacles influencing Chinese SMEs' development have been largely neglected and it remains a relatively underexplored topic (Fornes et al., 2012; Zhu, Wittmann, & Peng, 2011). A review of the literature (Deng, 2011) reveals that studies on business expansion performance tend to focus exclusively on internal factors of the firm (management, finance, technology etc.) and market-related determinants, but there is a lack of understanding on the effects of formal institutions, such as government policies, assistance programmes and regulations, on the domestic and overseas expansion of SMEs (Cardoza & Fornes, 2012). In fact, government assistance programmes and government involvement in firms' strategic decisions can benefit or cause difficulties in SMEs' expansion (Child & Rodrigues, 2005). In reality, government support through access to low-cost capital or preferential treatment to get public contracts and procurement could accelerate the development of SMEs but, on the other hand, SMEs may also encounter very bureaucratic and burdensome administrative barriers in the development of their initiatives or/and pressure to align their business strategies to government industrial plans and targets (Cardoza & Fornes, 2011a; Child & Rodrigues, 2005).

The present study aims at filling this gap in the literature and gaining a better understanding on how regulations, government policies and assistance programmes may affect the perception of institutional uncertainty and risks and the access to relevant market knowledge and financial resources, key to the process of Chinese SMEs' international expansion. The premise is that in comparison to Chinese MNCs and SOEs that benefit from political and economic advantages and enjoy favourable government policies and assistance programmes designed to accelerate their national and international expansion[2], SMEs in China continue to face obstacles associated with limited resources, inadequate capabilities, and institutional constraints that limit the strategic choices and therefore reduce the chances for SMEs to grow in domestic and foreing markets. We argue that SMEs with scarce or no state participation in their capital and facing restrictions to public funding and public procurement contracts are at a disadvantage. Also, the paper analyzes the perceptions of Chinese SMEs' managers about how the quality of the regulatory and legal systems affects the expansion initiatives.

To this end the study uses a systematically collected firm-level dataset and adopts a policy perspective to study the interaction between government and the strategic choices of SMEs' expansion. In this context, five factors affecting Chinese SMEs' internationalization are studied: (i) access to public financing, (ii) state ownership, (iii) access to government procurement contracts, (iv) quality of regulation and legal framework, and (v) government support.

A thorough understanding of how public policies affect Chinese SMEs' international expansion is needed to extend the IB literature. In this context, this paper contributes to the international business literature in several ways: (i) by providing a unique setting to validate existing theories in different contexts, in particular, the set of barriers presented by Leonidou (2004) on SMEs' internationalization in Western countries, (ii) by broadening the

[2] Chinese SOEs and MNCs have received preferential support in China mainly through: a- broad access to financial resources, b- government involvement, usually through ownership, c- market monopoly, d- government procurement contracts, e- assistance to form partnerships and joint ventures, and f- access to state-supported scientific and technical knowledge (Child & Rodrigues, 2005).

internationalization framework of Chinese SMEs proposed by Boisot & Meyer (2008) taking into consideration the impact of government policies on their expansion strategies and providing the possibility of empirically testing their hypotheses on early internationalization as a way to overcome policy constraints in China, and (iii) by studying the link between financing, state ownership, regulatory and legal frameworks, government support, and international expansion. The study also draws important lessons from the Chinese experience that can offer useful insights for policy-making in transition and emerging economies interested in accelerating the expansion process of their SMEs.

The paper proceeds as follows. The first section provides a general overview of the main scholarly contributions to the theory of competitiveness in transition economies and formulates several research questions within a public policy perspective. The following section presents a review of studies arguing that companies in transition economies overcome internal barriers and competitive disadvantages through international expansion and develops the hypotheses. Then, section 3 presents the methodology followed by a section showing the results of the data analysis. The paper concludes with a discussion and conclusion sections.

A PUBLIC POLICY PERSPECTIVE OF COMPETITIVENESS IN TRANSITION ECONOMIES. REVIEW OF THE LITERATURE

Over the last decades a growing body of research has been devoted to studying how public policies and institutional environment (IE)[3] influence business strategies and expansion of companies from transition and emerging economies. Based on this, Peng (2002) argued that in addition to existing theories – mainly competition based on industry conditions (Porter, 1980) and firms' resource and capabilities perspective (Barney, 1991) – for Asian organizations it is also necessary to adopt an institution-based view to explain differences in business strategy since "institutions govern societal transactions in the areas of politics (e.g., corruption, transparency), law (e.g., economic liberalization, regulatory regime), and society (e.g., ethical norms, attitudes toward entrepreneurship)" (Peng et al., 2008, p. 922). This is particularly important since (as also argued by Hoskinson et al. (2000, p. 253)) in the first phase of transition, when markets are still in formation, institutional theory presents a more relevant theoretical framework to understand the behaviour of firms.

Several factors affect the IE like cultural diversity (Buckley & Ghauri, 1988; Hofstede, 1981; Hofstede & Bond, 1988; Kogut & Singh, 1988), psychic distance and unfamiliarity with business conditions or liability of foreignness (Calhoun, 2002; Eden & Miller, 2004; Hymer, 1960; Johanson & Vahlne, 1977; Mezias, Chen, Murphy, Biaggio, Chuawanlee, Hui, Okumura, & Starr, 2002; Petersen & Pedersen, 2002; Zaheer, 1995), or public policies, legal institutions, and regulatory structures (Child & Lu, 1996; North, 1990; Peng & Heath, 1996a; Peng et al., 2008; Yeung, 2002). In this context, for example, Peng and Heath (1996b) analyzed how different public policies and institutional environments determine the growth strategy of state-owned enterprises in centrally planned economies in transition. Along the same lines, Peng (2002) observed that Chinese firms tend to rely on joint ventures and strategic alliances in order to access financial resources and technologies to overcome barriers to expand their business (mainly due to the lack of strategic factor markets and critical resources, e.g. capital and technology).

Similarly, Zhu et al. (2011) identified several institution-based barriers to innovation in China. In particular, these authors emphasized the barriers related to access to financing, the laws and

[3] Davis and North (1971, p. 6) defined the institutional environment as "the set of fundamental political, social and legal ground rules that establishes the basis for production, exchange and distribution." Accordingly, institutions are created to: 1- structure and coordinate political, economic, and social relationships among the members of a set society and therefore are essential for economic development (North, 1991; Williamson, 1985) , and 2- reduce the uncertainty and costs in transactions derived from imperfect information that economic players possess (North, 1993, 1995).

regulations, and the support systems, besides competition fairness and tax burden. Also, in their study on influences of policy frameworks and IE on firms from emerging and transition markets, Child and Lu (1996) found that these firms face different institutional constraints related to intervention by authorities and regulatory bodies in the decision making process, restriction of information usually controlled by authorities, and access to public funding. Similarly, weak institutional frameworks, characterized by shortages of skilled labour, deficient capital markets (Hoskisson et al., 2000, p. 252) and low levels of legitimacy (Yamakawa et al., 2008) were found to affect companies' strategies and performance. However, with few exceptions (Cardoza & Fornes, 2011a; Cardoza & Fornes, 2011b; Chen, 2006; Fornes et al., 2012; Ma, Wang, & Gui, 2010) the institutional environment's influence on SMEs' internationalization has received little attention from researchers, particularly in emerging and transition economies.

Overcoming institutional barriers and competitive disadvantages through international expansion: the Chinese SMEs' way?

During the last two decades, Chinese SMEs have been through three main development phases (Chen, 2006; Fornes et al., 2012). In the first phase (1978 to 1992), SMEs registered an important expansion and contributed to rapid economic and social development as a consequence of the government's support for the development of township, collective and self-employed enterprises (TVEs). In the second phase (1992 to 2002) the government encouraged the development of privately-owned enterprises; the period was characterized by the reform of state-owned SMEs mainly through mergers and acquisitions and joint ventures, leasing, contracting and sell-off and the development of non-public sectors. In the third phase that started in 2002, the SMEs promotion law was passed including (among other relevant policies) the elimination of institutional barriers and the promotion of technological upgrading.

However, in spite of these reforms, Chinese SMEs continue to face different obstacles and multiple competitive disadvantages to become global players, including: restricted access to private and public financial resources to reach the necessary size to benefit from economies of scale; weak R&D capabilities and isolation from research centres and universities; outdated technology; poor management training; shortages of talent; regional protectionism; weak brands; and limited information and knowledge about overseas markets (Cardoza & Fornes, 2011a; Child & Rodrigues, 2005; Ding, Akoorie, & Pavlovich, 2009; Sandberg, 2009). Moreover, deficiencies in infrastructure, lack of suitable policy and regulative frameworks, weak legal frameworks and protection systems for intellectual property rights as well as the over-regulated environments in which they operate in their domestic markets hinder their process of national and international expansion (Boisot & Meyer, 2008). As explained by Lu and Tao (2010), until 1988 private enterprises were not allowed to exist in China and the institutional environment (mainly, property rights protection and contract enforcement) in which they have emerged was mostly hostile during the transition from a centrally planned economy to a market-based economy. The misalignment of IE, particularly of policy and regulatory frameworks, with SMEs' needs hinders the possibilities of strengthening the firms' management, financial and technological capabilities needed to compete in domestic and foreign markets.

To overcome these obstacles, several explanations have been advanced. For instance, contrary to mainstream theories that presuppose that companies internationalize to exploit competitive advantages[4], Child and Rodrigues (2005) asserted that Chinese firms go abroad to overcome

[4] Child and Rodrigues (2005) argue that the latecomer perspective offers a more suitable framework to understand the internationalization process in China since "it directs attention to international investment as a means of addressing competitive disadvantages". They also consider that the concepts of 'late development' and 'catch-up' used to explain the rapid growing economies of South-East Asia could also be useful to describe the process of internationalization of many

competitive disadvantages and to get access to technologies and other resources and capabilities they require to compete internationally. Similarly, when analyzing the internationalization of the so-called newcomers and latecomer firms in Asia, Mathews (2006, p. 6) added that their success is not based on "the possession of overwhelming domestic assets which can be exploited abroad [but rather] … their international expansion has been undertaken as much for the search for new resources to underpin new strategic options, as it has been to exploit existing resources". Using the resource-based framework to explain the success of latecomer firms from China in their internationalization process, Mathews (2006) argued that internationalization of Chinese firms has been undertaken, often through partnerships and joint ventures, for the search for key resources such as skills, knowledge, and capital.

Boisot and Meyer (2008, Pp. 358-361) also observed that Chinese firms expand internationally "at a smaller size than their Western and Japanese counterparts [and that] they do so in order to escape the competitive disadvantages that they confront in the domestic market and that outweigh the competitive advantages of a large market size"; this is contrary to the internationalization literature that is mostly based on the assumption that a firm first expands in home markets then goes abroad to exploit some competitive advantage. Also, as noted by Yamakawa et al. (2008), new ventures from emerging economies find more friendly institutional environments in developed countries including better intellectual property protection and easier access to financial support.

In summary, the works presented above posit that to overcome domestic disadvantages new ventures are encouraged to go abroad where they can eventually have access to the necessary resources to develop and grow. Building on these insights and considering that these arguments have been mostly based on case studies, this paper conducts empirical research to verify whether, as suggested by the cited papers, Chinese SMEs' international expansion is positively related to the perception by managers and entrepreneurs about the difficulties to get access to: 1- information and assistance programmes to enter foreign markets needed to gain critical market knowledge; 2- public funding contributing to build their financial strength. Also, this study explores how the low quality, instability and unpredictability of domestic institutional settings and regulatory frameworks affect the perception of institutional uncertainty and risk associated with internationalizations strategies.

Limited access to public financial support: a trigger for SMEs international expansion?

Despite three decades of reforms, Chinese authorities have remained suspicious of the domestic private sector and have created institutions and policies that continue constraining the development and growth of the private sector (Boisot & Meyer, 2008; Spar & Oi, 2006). The 'Go Global' policy launched in 1999 was mainly oriented to promote the internationalization of large enterprises (including state-owned) mainly through outward FDI based on low interest loans to purchase foreign companies (Buckley et al., 2007; Ding et al., 2009). In comparison with these companies (that enjoyed advantages in financing and preferential treatment from local and central governments) most Chinese private firms face additional constraints to get access to financial support and perceive greater institutional obstacles that limit their expansion (Child & Rodrigues, 2005). In fact, during the 1980s and

---

Chinese firms since these 'latecomer firms' internationalize to overcome internal obstacles and to get access to new resources and capabilities.

In addition, in the process of international expansion, many private Chinese businesses (as argued by Sutherland and Ning (2011)) use offshore holding companies (onward-journeying ODI, as they call it), usually in tax havens, to circumvent domestic institutional constraints (mainly restricting access to financial resources), and to facilitate international operations.

1990s there was a lending bias and legal and regulatory discrimination against private firms in the Chinese economy (Huang & Di, 2007); also during the 1990s the government gave preferential treatment to SOEs for political rather than for economic reasons and TVEs received four times as much credit as private firms (Brandt & Li, 2002).

Moreover, in comparison with large enterprises, Chinese SMEs still perceive the lack of financial support as a major obstacle and face great difficulties in getting access to external financing for their business expansion projects (Cardoza & Fornes, 2011b). Several factors are combined to further restrict access to financial resources and increase the transaction costs for Chinese SMEs, mainly: (i) lack of credit history, (ii) limited collateral and creditworthiness, (iii) lack of scale and transparency, (iv) information asymmetry, (v) lack of credit guarantee systems, (vi) poor technological and managerial capabilities, and (vii) biased government support policies and systems that mainly favour large companies (Cunningham, 2011; Liu, 2007, 2009; Zhang & Cheong, 2011).

Although China has made important advances in the process of reform from a centrally planned economy into a market-oriented one, the business environment in China is in many ways adverse, especially for SMEs. As pointed out by Shen et al. (2009), there is an asymmetry in China between the contribution of SMEs to economic growth and the amount of credit they get from banks and other financial institutions[5]. In fact, even though Chinese SMEs account for 60% of China's GDP, are responsible for 68% of China's exports and 80% of outward investment, and provide more than 80% of total employment, they obtain less than 25% of total bank credit and only 12% of their capital comes from bank loans (Zhu et al., 2011).

To enhance SMEs' competitiveness and help firms to overcome obstacles derived mainly from limited access to financial resources, scarce knowledge of internal and external markets and weak R&D capabilities, the Chinese government has adopted a series of policy frameworks and programmes[6]. Even though Chinese SME Promotion Law comprises public support and encourages financial institutions to improve the financing for SMEs[7], small business is still experiencing difficulties to get access to financial resources (Zhu et al., 2011). In reality, around 98% of SMEs have no access to formal financing, face greater credit constraints, have to rely on self-financing (Shen et al., 2009; Zhu et al., 2011)[8] and are subject to severe local government controls[9]. In fact, according to the World Bank, Chinese

[5] Lack of ad-hoc financial institutions supporting SMEs and adequate credit guarantee systems are often recognised to limit the access to financial support. Also, as pointed out by several authors, SMEs find it difficult to obtain bank loans due to weak management and governance structures, poor accounting and information systems, and high business risks (Liu, 2007; Yuan & Vinig, 2007).

[6] Specifically, in 2002 the National People's Congress Standing Committee enacted the SME Promotion Law to reduce institutional barriers, offer legal protections to investors, promote specific industries, and create technology-based companies (Chen, 2006; Kanamori, Lim, & Yang, 2007). Also, in 2006 the SME Growth Project was adopted mainly to promote policymaking, training, supervision and funding for SMEs. To improve access to financial support the government created the SME development fund and designed systems to offer tax incentives and credit guarantees. Similarly, the Chinese government is also promoting networking with national and foreign companies, encouraging mergers and acquisitions, and offering preferential treatment to SMEs in public contracts and procurement processes.

[7] In order to promote SMEs' development through public policies and programmes, the Chinese government has created several administrative entities at national and regional levels such as the National Development and Reform Commission, China Coordination Centre for Cooperation of SMEs with Foreign Countries, China Association of SMEs, and a local SMEs department in every province (Liu, 2007).

[8] As noted by Kanamori et al. (2007), "while the policies sketched out in the Law seek to improve the overall business environment and increase the expansion potential of SMEs, it does not actually address the longer-term development of SMEs within the framework of the existing NIS (National Innovation System)."

[9] For instance, Jiangsu Province favoured collective firms (TVEs) and discriminated against domestic private firms mainly through heavier restrictions to credit access (Brandt & Li, 2002; Huang & Di, 2007; Wei, 2002). As explained by Huang and Di (2007), the Sunan Model prevailing in Jiangsu Province was characterized by strict government control of firms including

government credit policies and funding programmes (including fiscal subsidies, preferential tax treatments, risk compensation funds and credit guarantee schemes, etc) implemented to address SMEs' financing difficulties have failed to achieve the desired sustainability and outreach (World Bank, 2011).

In this sense, although an acceleration of the internationalization process of SMEs has been predicted due to global economic integration, advances in information and communication technology (ICTs), and lesser government barriers (Boisot & Meyer, 2008; Lu & Beamish, 2001), the current global crisis has depressed the demand in domestic and foreign markets and therefore has created major obstacles for SMEs' expansion. This is particularly worrying since Chinese SMEs are still finding difficulties in getting credit compared with the government's favoured state-owned enterprises (SOEs)[10] and are facing greater risks of bankruptcy (Batson, 2009; STRATFOR, 2011)[11].

In addition, as pointed out by Cai et al. (2010), government involvement in the firms' decision making process and the variety of types of support depending on the firm's location and relationship to central or local governments (i.e. economic importance, industrial sector, size, etc) have an effect on enterprises' competitiveness and behaviours. This situation largely explains why to overcome institutional failures and avoid ideological discrimination against private ownership, companies tend to establish close ties with local or central governments (Li, Meng, Wang, & Zhou, 2008). In this context, the extent of state ownership may have a decisive influence on firm behaviour and condition their strategic decisions of international expansion. Similarly, Chinese industrial policies, such as public contracts and government procurement[12], have been used mostly to promote the expansion of selected state-owned enterprises; however, private enterprises not benefitting from large public contracts may be forced to go abroad earlier (China Daily, 2012; Nolan, 2002).

On the other hand, as mentioned above, several researchers have suggested that Chinese firms expand internationally in order to mitigate the risks associated with domestic market imperfections and to escape the competitive disadvantages in their home markets they require to compete globally (Boisot & Meyer, 2008; Child & Rodrigues, 2005; Mathews, 2006; Yamakawa et al., 2008). Even though these theoretical arguments seem plausible, there is a need to validate them empirically.

Based on these considerations it can be argued that the limited access to support systems such as public financing, government procurement contracts and the extent of state ownership affect the international expansion of Chinese SMEs. Following this line of reasoning, a first group of hypothesis can then be formulated:

---

punishments for workers who left TVEs, systematic controls on the enterprise registration documents and procedures and limits on managers' compensation.

[10] Citing an interview with Zheng Xinli, vice chairman of the China Center for International Economic Exchanges, The Wall Street Journal (Batson, 2009) mentions that "he thinks small and medium-sized companies get just 8% of bank loans…and most of that probably goes to medium-sized businesses".

[11] STRATFOR, published on Forbes (2011), mentions that during "the first two months of 2011, the Chinese Ministry of Industry and Information Technology recorded a slight uptick in bankruptcies, reporting that 15.8 percent of the country's SMEs were facing bankruptcy…". In this respect, Yu (quoted in China Economic Review (2009)) argues that thin margins, high commodity prices, and rapidly increasing wages, combined with credit restrictions and a diminishing exports sector may lead to a "wave of bankruptcies" of Chinese SMEs. Also, according to Zhou Dewen, director of the Wenzhou Council for Promotion of Small and Medium-sized Enterprises, "SMEs are facing a more difficult situation this year, as a credit crunch has made it difficult to obtain loans from banks and channels for private lending have also become limited …currently about 30 percent of SMEs in China are struggling to survive" (SINA, 2012)

[12] In addition to the fiscal support and other financial support systems, the Chinese Ministry of Finance (MOF) has declared that the government will allocate at least 30 percent of their purchasing quota to SMEs (China Daily, 2012).

H1: Chinese SMEs are basing their international expansion mainly on financial support from the government.

H2: Chinese SMEs with state participation in their capital are more likely to expand internationally.

H3: Chinese SMEs benefiting from public procurement contracts exhibit a greater propensity to expand internationally.

Government assistance, regulatory framework, and international expansion

Although China has experienced an evolution towards a more entrepreneurial institutional policy framework in recent years, still the all-encompassing controls of local government generate institutional dependence and increase transaction costs (Boisot & Meyer, 2008; Child & Rodrigues, 2005). Even though the SME Promotion Law was passed in 2002, Chinese SMEs still encounter many intricacies to access public financing and face discriminatory and complex regulations and uncoordinated policies that make it difficult to benefit from the existing support systems and to expand their businesses at the national and international levels (Shamsuddoha, Yunus Ali, & Ndubisi, 2009)[13].

Weak market structures, overwhelming government influence, excessive bureaucratic controls and regulation and arbitrary state intervention on business[14] further diminish competitiveness of private enterprise in transition economies, in particular of SMEs. Besides, the lack of a well-defined property rights-based contract law is hindering SMEs' development and affects their internationalization (Yuan & Vinig, 2007). In fact, compared with SOEs, private new ventures suffer regulatory discrimination that prevents them having access to key resources for their domestic and international expansion (Yuan & Vinig, 2007).

On the other hand, the large diversity and inconsistency of legal protection, regulatory systems and government support policies across different Chinese regions and industries[15] determine different levels of legal protection that force firms to rely on interpersonal relationships (*guanxi*) to build trust and to overcome market and state failures (Bhagat, McDevitt, & McDevitt, 2010; Cai et al., 2010).

Moreover, Chinese SMEs find that public assistance programmes and services are inefficient and not always suited to their needs (Liu, 2007). In particular, the lack of information and knowledge about markets and consumers constitutes a serious obstacle in the process of SMEs' expansion (Cardoza & Fornes, 2011a). In this respect, Kanamori et al. (2007) argue that asymmetries are a significant inhibitor of SME growth in China, especially with respect to the financial constraints that they face.

As discussed in previous sections, several authors have conjectured that given inefficient public assistance, unsuited services, institutional bias to favour large SOEs' international expansion, domestic regulative discrimination, and scarcity of resources, many SMEs may decide to do business abroad seeking more friendly institutional settings. In doing so, these firms also escape from their home market and the misalignment between firm needs and home country institutional conditions (Boisot & Meyer, 2008; Child & Rodrigues, 2005; Mathews,

---

[13] In particular, Shamsuddoha et al. (2009) argue that considering the lack of resources, especially of knowledge about the markets, government export assistance programmes help "small firms develop their organizational capabilities and competencies to exploit opportunities for internationalization".

[14] As pointed out by Zhu et al. (2011) Chinese SMEs find regulatory obstacles for the establishment, approval and registration of companies and find bankruptcy proceedings very intricate, time-consuming, and expensive.

[15] According to Gao (2008), due to the existence of different political and economic priorities there is inconsistency between the local and central government in regard to the interpretation and application of laws and regulations.

2006; Yamakawa et al., 2008). In this context, two additional hypotheses can be then formulated:

H4: Chinese SMEs perceiving adverse regulatory and inconsistent legal frameworks are more likely to expand their business activities internationally.

H5: Chinese SMEs perceiving poor government assistance on information and knowledge about markets and consumers are more likely to expand their business activities internationally.

Summing up, the proposed framework presented in Figure 1 illustrates the relationships among institutional variables and public policies affecting SMEs' international expansion. In this context, first the research proposes that state participation in firms' capital as well as access to public funding and to public contracts increase the financial strength of SMEs and therefore the likelihood to expand internationally. Second, the paper argues that government assistance programmes facilitate access to knowledge about markets and consumers in domestic and foreign markets that will in turn increase the chances of SMEs going international. Third, the study puts forward that the quality of the regulatory and legal systems influences the perception of SMEs managers about domestic institutional risks and, consequently, has direct and indirect effects on firms' expansion output. These relationships are conceptualized and different hypotheses are formulated for empirical testing.

[Insert Figure 1 around here]

SAMPLE, DEFINITIONS, AND METHODOLOGY

The sample was developed through a two-stage process. The first stage involved the selection of a Theoretical Sampling (Eisenhardt, 1989; Eisenhardt & Graebner, 2007; Pettigrew, 1990) designed to capture the different patterns of development inside China. On the one hand, Jiangsu and Shandong, two of China's four largest provincial economies, were chosen to represent the Eastern region which accounts for 54% of national GDP, 60% of bank assets/loans, 70% of mortgages, 86% of imports and 89% of exports; the region is home to 65% of the nation's securities companies, 82% of insurers, and 95% of investment funds. On the other hand, Anhui and Ningxia were included in the sample to represent inland China, in particular the Central and Western regions respectively. The Central region has never attracted attention for high economic growth, but has benefited from being in the middle of the rich East and the resource-rich West. In recent years, it has emerged as a manufacturing hub for low-end manufactures due to the rising costs in the East, convenient location, good transport links, and abundance of cheap labour. The Western region is China's poorest in GDP terms (the average province's GDP is about a quarter of that in the Eastern region) with income dependent on fiscal transfers from Beijing. It has been the fastest growing since 2005 and is rich in natural resources (66% of coal, 60% of natural gas and 40% of crude oil reserves) with a good potential for wind and solar energy (Zhiming, 2010).

The second stage involved a survey applied to a nonprobability convenience sample of 582 senior managers and directors of SMEs in these four provinces (Anhui (170), Jiangsu (137), Shandong (115), and Ningxia Hui Autonomous Region (160)). The survey aimed at gathering information about the companies along with data on managers' perception using five-point Likert-type scales and other ordinal variables (data from only 497 questionnaires were used as the replies from the other 85 were not complete). Participants operate within similar idiosyncratic characteristics (managerial, organizational, and environmental) making the responses operative (Barret & Wilkinson, 1985) and, as a consequence, a similar contextual view of the challenges faced by their firms was obtained.

Table 1 presents selected answers from the survey. In this table, it is possible to see that around 21% of the SMEs in the sample are completely owned by the state. The companies in the sample operate mainly in manufacturing (34%), wholesale (12%), and retail (7%). Most were founded between four and ten years ago, and the great majority of their managers are men (77%) between 35 and 54 years old. These companies show a relatively high active participation by members of the managers' families. Most of these SMEs have funded their operations using loans/overdrafts, mainly from state-owned banks, in the last two years. The definition taken for SMEs is that given by the National Bureau of Statistics of China (2009) and can be seen in Table 2.

[Insert Tables 1 and 2 around here]

The data analysis is based on multivariate regression analyses using export intensity (the ratio of international sales to total sales) as a dependent variable and the answers from the survey as independent variables. The definition of internationalization for SMEs used in this work is that proposed by Leonidou (2004, p. 281): "the firms' ability to initiate, to develop, or to sustain business operations" outside their home market; in this context, export intensity (a measure of expansion firm performance (Bonaccorsi, 1992; Calof, 1994)) is used as a proxy for engagement in international economic activities in the models. This research method is similar to the one followed by Cardoza and Fornes (2011a) and Fornes, Cardoza and Xu (2012) and was chosen to allow comparisons.

The differences in the economic development of the regions are also factored into the analysis. The regressions will be run for three groups: (i) for the whole sample (coded as WS), (ii) for the Eastern region (coded as ER), and (iii) for the Central and Western regions (coded as CW). The aim of these three analyses is to know if there is any difference in the results between China's regions. The models can be seen below, and the definition for the variables can be seen in Table 3; the scale variables were based on Leonidou (2004).

[Insert Table 3 around here]

Limited access to financial resources (H1)

$$WS_i\,;\,ER_i\,;\,CW_i = \alpha + \theta_1 Exports/GDP + \theta_2 Industry_i + \theta_3 Finance_i + \theta_4 Personal_i + \theta_5 StateSupport_i + \theta_6 Private_i + \varepsilon_i \qquad \text{(Equation 1)}$$

where $WS_i\,;\,ER_i\,;\,CW_i$ is the export intensity of company i analyzed in three groups (for the whole sample, for the Eastern region, and for the Central and Western regions), *Exports/GDP* of the province of origin (Ningxia 4.8%, Anhui 7.1%, Jiangsu 40.3%, Shandong 17.5% (Deutsche Bank, 2012)), and *Industry* are control variables; *Finance, Personal, State,* and *Private* are the variables defined in Table 3.

Participation of the government in the ownership (H2)

$$WS_i; ER_i; CW_i = \alpha + \theta_1 Exports/GDP + \theta_2 Industry_i + \theta_3 State_i + \theta_4 Family_i + \theta_5 SpecialPartnerships_i + \theta_6 FinancialInstitutions + \varepsilon_i \qquad \text{(Equation 2)}$$

where $WS_i\,;\,ER_i\,;\,CW_i$ is the export intensity of company i analyzed in three groups (for the whole sample, for the Eastern region, and for the Central and Western regions), *Exports/GDP* of the province of origin and *Industry* are control variables; *State*, *Family, SpecialPartnerships, and FinancialInstitutions* are the variables defined in Table 3.

Public procurement contracts (H3)

$$WS_i; ER_i; CW_i = \alpha + \theta_1 Exports/GDP + \theta_2 Industry_i + \theta_3 LocalGov_i + \theta_4 NatGov_i + \theta_5 Wholesale_i + \theta_6 Manufacture_i + \theta_7 NoManufacture_i + \theta_8 Retail_i + \theta_9 Others_i + \varepsilon_i \qquad \text{(Equation 3)}$$

where $WS_i\,;\,ER_i\,;\,CW_i$ is the export intensity of company i analyzed in three groups (for the whole sample, for the Eastern region, and for the Central and Western regions), *Exports/GDP* of the province of origin and *Industry* are control variables; *Local Gov, NatGov, Wholesale, Manufacture, NoManufacture, Retail,* and *Others* are the variables defined in Table 3.

Adverse regulatory and inconsistent legal frameworks (H4)

$$WS_i;\ ER_i;\ CW_i = \alpha + \theta_1 Exports/GDP + \theta_2 Industry_i + \theta_3 DomRegulations_i + \theta_4 ExchRate_i + \theta_5 Paperwork_i + \theta_6 Payment_i + \theta_7 EconEnvironment_i + \varepsilon_i \quad \text{(Equation 4)}$$

where WS_i ; ER_i ; CW_i is the export intensity of company i analyzed in three groups (for the whole sample, for the Eastern region, and for the Central and Western regions), *Exports/GDP* of the province of origin and *Industry* are control variables; *DomRegulations, ExchRate, Paperwork, Payment,* and *EconEnvironment* are the variables defined in Table 3.

Assistance on information and knowledge about markets (H5)

$$WS_i;\ ER_i;\ CW_i = \alpha + \theta_1 Exports/GDP + \theta_2 Industry_i + \theta_3 Contacts_i + \theta_4 InfoSources_i + \theta_5 Payment_i + \theta_6 Assistance_i + \theta_7 Familiarity_i + \theta_8 SocioCultural_i + \theta_9 Verbal_i + \varepsilon_i \quad \text{(Equation 5)}$$

where WS_i ; ER_i ; CW_i is the export intensity of company i analyzed in three groups (for the whole sample, for the Eastern region, and for the Central and Western regions), *Exports/GDP* of the province of origin and *Industry* are control variables; *Contacts, InfoSources, Payment, Assistance, Familiarity, SocioCultural,* and *EconEnvironment* are the variables defined in Table 3.

Robustness checks

The first check was differences in the two sub-samples (ER and CW). An Independent Samples t-test was carried out to see if the difference between the two means is statistically significant different from zero at the 5% level of significance. The second check was specification, the omission or inclusion of irrelevant variables and the selection of an incorrect functional form. This process was carried out to test the robustness of the model, to avoid losses in the accuracy of the relevant coefficients' estimates, and to avoid a biased coefficient by estimating a linear function when the relationship between variables was nonlinear (Schroeder, Sjoquist, & Stephan, 1986). Thirdly, different measures were put in place to avoid measurement errors, such as back translations and pilot testing of the questionnaire, and data collected in similar contexts (as explained above). Fourthly, t-statistics were adjusted by a heteroskedasticity correction in the regressions (White, 1980)[16] to test if error terms depend on factors included in the analysis. Finally, autocorrelation was checked by calculating the Durbin-Watson coefficient and multicollinearity was tested through an analysis of the correlation coefficients between the variables in the model and the calculation of the Variance Inflation Factor (VIF).

RESULTS

Table 4 presents the results of the independent samples t-test. As can be seen, there is no statistical difference between the two subsamples CW and ER (p>0.01 two-tailed) which suggests that the two belong to the same population and therefore can be compared in the context of this study.

Tables 5 and 6 present the correlation for the models. Table 5 presents the Kendall's τ coefficient for scale variables (as the equi-distance in the Likert scales cannot be justified) and Table 6 shows the Pearson's ρ coefficient (for ordinal variables). As can be seen, in general, there are no signs of large correlation between the variables; the very few that show a relatively large correlation are, to a certain extent, expected owing to the apparent closeness

---

[16] White proposed to analyse the R^2 of a regression equation that includes the squared residuals from a regression model with the cross-product of the regressors and squared regressors.

of the concepts measured and the nature of the variables presented by Leonidou (2004) (Table 3).

The Durbin Watson coefficients of the different models do not show autocorrelation and the VIFs do not present signs of multicollinearity except in some variables of Equation 3[17]. The original variables were kept in the model as it was considered that, even factoring in the closeness of the concepts, the variables do not depart from their independence mainly owing to the different contexts and purposes of the original data.

[Insert Tables 4, 5 and 6 around here]

The results of running the five models (Equations 1, 2, 3, 4, and 5) can be found in Table 7. The table presents three panels with the results for the dependent variables for the three samples, WS_i, CW_i, and ER_i. The analysis of the table follows.

[Insert Table 7 here]

Limited access to financial resources (H1) model: the first row presents the results of running Equation 1 for the three samples WS_i, CW_i, and ER_i. In Panel A, it is possible to see that *Finance, Personal,* and *StateSupport* are significant ($|\beta_m/S_b|>t_{n-6;\ 0.95}$) for the Whole Sample. Panel B shows that no variable is statistically significant for the Central and Western Regions ($|\beta_m/S_b|>t_{n-6;\ 0.95}$). Finally, Panel C shows that *Finance, State Support,* and *Private* are statistically significant ($|\beta_m/S_b|>t_{n-6;\ 0.95}$). This rejects *H1* as different sources of financial support are statistically significant.

Participation of the government in the ownership (H2) model: the second row presents the results of running Equation 2 for the three samples WS_i, CW_i, and ER_i. In the three panels it is possible to see that no variable is statistically significant for any of the three samples ($|\beta_m/S_b|>t_{n-6;\ 0.95}$). This rejects *H2.*

Public procurement contracts (H3) model: the third row presents the results of running Equation 3 for the three samples WS_i, CW_i, and ER_i. In Panel A, it is possible to see that only *Retail* is significant ($|\beta_m/S_b|>t_{n-6;\ 0.95}$) for the Whole Sample. Panel B and C show that no variable is statistically significant for the Central, Western, and Eastern Regions ($|\beta_m/S_b|>t_{n-6;\ 0.95}$). This rejects *H3* as no public procurement contract was found to be statistically significant.

Adverse regulatory and inconsistent legal frameworks (H4) model: the fourth row presents the results of running Equation 4 for the three samples WS_i, CW_i, and ER_i. In Panel A, it is possible to see that *Exchange Rate and Paperwork* are significant ($|\beta_m/S_b|>t_{n-6;\ 0.95}$) for the Whole Sample. Panel B shows that only *Exchange Rate* is statistically significant for the Central and Western Regions ($|\beta_m/S_b|>t_{n-6;\ 0.95}$). Finally, Panel C shows that *Exchange Rate, Paperwork,* and *Payment* are statistically significant ($|\beta_m/S_b|>t_{n-6;\ 0.95}$). This accepts *H4* for the three samples.

Assistance on information and knowledge about markets (H5) model: the fifth row presents the results of running Equation 5 for the three samples WS_i, CW_i, and ER_i. In Panel A, it is possible to see that *Contacts, Info Sources,* and *Familiarity* are significant ($|\beta_m/S_b|>t_{n-6;\ 0.95}$) for the Whole Sample. Panel B shows that *Assistance* is statistically significant for the Central and Western Regions ($|\beta_m/S_b|>t_{n-6;\ 0.95}$). Finally, Panel C shows that *Contacts, Assistance,* and *Familiarity* are statistically significant ($|\beta_m/S_b|>t_{n-6;\ 0.95}$). This accepts *H5* for the three samples. A summary of the results can be seen in Table 8.

[17] It was deemed not necessary to make changes to the *Public Procurement Contracts model* (H3) due to the relative high VIF as the effectiveness of the usual curing problems associated with multicollinearity is not clear and especially because relatively high VIF values do not by themselves undermine the results of the regression analysis (O'Brien, 2007).

[Insert Table 8 around here]

DISCUSSION

Contributions

In response to recent calls to enrich the debate on the impact of institutions, and in particular of public policies, on the international expansion of Chinese firms (Boisot & Meyer, 2008; Deng, 2011; Peng et al., 2008; Yamakawa et al., 2008; Zhu et al., 2011) as well as to identify trends towards and away from globalisation (Buckley, 2002; Peng, 2004), this article makes the following conceptual and empirical contributions.

Conceptually and empirically the findings suggest that the government's support, whether in the form of special terms for financing (H1), ownership (H2), and/or procurement contracts (H3), has not been relevant in the international expansion of Chinese SMEs as it has been for MNCs (Buckley et al., 2007; Child & Rodrigues, 2005; Deng, 2011). Similar results have been reported in recent years using smaller samples and case studies (Cardoza & Fornes, 2011a; Fornes et al., 2012; Ge & Ding, 2008; Williamson & Yin, 2009). This may indicate that: (i) the Government supports (or has supported) only a group of tier 1, national champions, or chosen companies and/or industries in their internationalisation process, (ii) the Government supports (or has supported) the internationalisation of companies only to politically or economically strategic markets (like the US and the EU to acquire capabilities, or Africa for natural resources, for example), (iii) the Government supported the first wave of companies going abroad but as the number of firms grows this support tends to be less tangible, and/or (iv) there is a new breed of competitive networks or alliances based on the combination of complementary capabilities (Williamson & Yin, 2009; Zeng & Williamson, 2003) where the support of the government has not been a key element in their internationalisation process. In any of the cases, this finding questions the role of the government and its impact (if any) in the mid- to long term, and as a consequence in the development of theories behind the international expansion of Chinese companies.

Also conceptually and empirically, Chinese SMEs have been able to expand their operations internationally even when perceiving poor regulatory frameworks and weak support systems from the government which contrasts with the findings in Western countries where SMEs find high barriers to expand internationally when the regulatory framework is weak and government support systems are not easily available (Leonidou, 2004). These results suggest that the IE seems to have an impact on Chinese SMEs' international expansion different to that on Western SMEs. In this sense, the fact that small and medium-size firms from China are currently responsible for more than half of the country's exports and therefore important players in world trade provides strong evidence that Chinese SMEs, in a relatively short period, have been able to adapt their structures, practices, and capabilities to successfully compete in world markets regardless of the home IE where they operate. This finding questions the role of institutions (at least in the way they are understood in Western countries) in the development of internationally competitive small and mid-sized business and, at the same time, provides evidence to enrich the debate on the need to develop a theory of Chinese management versus the need to develop a Chinese theory of management (Barney & Zhang, 2009; Boisot & Meyer, 2008; Child & Rodrigues, 2005; Deng, 2011; Mathews, 2006).

Conceptually, a close analysis of the findings in H4 and H5 indicates that SMEs perceive difficulties/barriers mainly in dealing with international finance (*Exchange Rate* and *Payment*), logistics (*Paperwork*), and knowledge of international markets (*Contacts*, *InfoSources*, and *Familiarity*) rather than with adverse regulatory and/or inconsistent legal frameworks. This finding questions the proposed Institutional Arbitrage (Boisot & Meyer,

2008) as it may be less costly and risky to deal with these weaknesses internally rather than by investing overseas to deal with them.

Empirically, the findings from H1 show that SMEs (especially from the ER) do not have the necessary funding to expand their operations internationally. It also shows that private sources of funding are necessary in addition to the support from the government (similar to what was found in Ningxia (Cardoza & Fornes, 2011a) and in Anhui (Fornes et al., 2012)). This private support is also usually linked to a transfer of the knowledge and skills needed to operate in international markets (linkage in Mathew's (2006) LLL framework). It also provides support to Mathews' (2006) claim that the internationalisation of companies from China is based on a push and pull (from the local SMEs and partner, respectively) process, rather than propelled only by a push process based on strategic objectives, as in Western companies.

Also empirically, the fact that state ownership (H2) does not play a relevant role in promoting the firms' expansion could be framed within the findings from Child and Rodrigues (2005), that state-owned companies' strategic position "could be weakened by the way they remain beholden to administrative approval and ... a legacy of institutional dependence." In this sense, Liu et al. (2008: 505) added that "Chinese entrepreneurs are bounded by ... unfavourable institutional arrangements". In any case, the results obtained in this analysis are among the first to provide empirical evidence of the effects of state ownership on the international expansion of Chinese SMEs.

In addition, the results from H3 show that having the government as a customer has not proved to be a facilitator for the firm to expand internationally. However, the fact that *Retail* does appear as a facilitator may indicate that those companies with a close relation with customers are in a better position to sell their products beyond the country's borders. In this context, the capability of understanding and serving customers seems to be stronger than the potential benefits from government contracts.

On the other hand, there are no major differences in the results from the two sub-samples, CW and ER. This was unexpected as China's domestic market is highly fragmented (Boisot & Meyer, 2008; Fornes et al., 2012), the pattern of development differs greatly among regions (Cardoza & Fornes, 2011a; Zhiming, 2010), and especially because the level of economic development and growth are also highly different (Deutsche Bank, 2012). This may be explained by the role of the overarching institutions (national legislation, culture, language, primary and secondary education, etc) that rule the functioning of the market across the country. The only difference between the two sub-samples can be found in H1 where companies from the CW are not basing their international expansion on any of the variables in the model; this can be explained by the relative lower export/GDP ratio of the region, and therefore the lower need of its companies to export, rather than by important differences in the business environment.

All in all, the findings from this study show that SMEs in the sample are basing their international expansion on "private" capabilities (which includes transfers from external private sources) rather than on the support from the government (the case for many MNCs). In addition, the perceived barriers for the international expansion of these firms are mainly internal rather than institutional; in other words no institution-based barrier seems to prevent Chinese SMEs to expand internationally. Finally, there are no main differences in the regions of China where companies are based in terms of public policies or institutions.

Future research directions

This research leaves some areas awaiting further research. Considering the increasing importance of China in the world's economy and especially of its SMEs, the analysis of these questions will broaden and deepen the understanding of emerging markets-based SMEs and as a consequence push the research agenda on China's companies. The areas are:

- The impact of institutions on the development of Chinese firms and especially SMEs. The complex web of institutions that permeates the developed economies is either different, absent, or poorly developed in China (Blazquez-Lidoy, Rodriguez, & Santiso, 2006; Boisot & Meyer, 2008; Buckley et al., 2007; Makino, Chung-Ming, & Rhy-Song, 2002; Santiso, 2005a, 2005b; Spar & Oi, 2006). This becomes apparent in three main areas: (i) information problems: comprehensive, reliable, and objective information to make decisions is not widely available (Boisot & Meyer, 2008; Cardoza & Fornes, 2011a); (ii) misguided regulations: political goals may take priority over economic efficiency, reducing thus the chances to take full advantage of business opportunities (Buckley et al., 2007; Child & Rodrigues, 2005); and (iii) inefficient judicial systems: the neutrality/independence of the Chinese judicial system to enforce contracts in a reliable and predictable way has been questioned (Blazquez-Lidoy et al., 2006; Fornes & Butt Philip, 2012). In this context, a relevant question may be: how does the environment for business in China impact/affect/shape the international growth of SMEs?
- Related to the previous point, the suitability of the Chinese business environment for the next stage of SMEs' international expansion, mainly FDI. Currently most Chinese SMEs are exporting and very few are engaged in investments overseas (this being the main reason why this research uses export intensity as a proxy for engagement in international economic activities) but due to their size (especially in comparison with their Western counterparts, see Table 2) it may be expected that in the few next years these companies will follow the pattern seen in many MNCs, i.e. going from export to FDI (Dunning, 2003). In this context, a relevant question may be: will Chinese SMEs invest abroad aiming at: (i) improving their market penetration in the host country (market-seeking FDI) or (ii) operating in a business environment with stronger institutions (institutional arbitrage)?
- Future developments of Chinese SMEs. In the first years after China's accession to the WTO most of the academic literature explained the international expansion of its companies based on the government intervention and support. At the same time, these works questioned the relative strengths of Chinese companies' capabilities to compete against the incumbents. However, in recent years, several studies (including this one) have shown that the support from the government is not playing a significant role in the companies' international expansion. In this context, a relevant question may be: have Chinese SMEs developed internal capabilities strong enough to successfully compete in international markets?

Limitations

The main limitation of this study is generalisation. Although based on around 500 companies from, firstly, a theoretical sample and, secondly, a nonprobability convenience sample, it is recognized that they represent only a small population of Chinese SMEs and that other regions (mainly Guandong province) may be analyzed to have a better picture of the phenomenon under analysis. In any case, this is one of the first research studies to analyze such a large sample in four different locations.

SUMMARY AND CONCLUSIONS

How do managers and owners of small and medium-sized enterprises (SMEs) perceive barriers in their international expansion strategic decisions? Do constraints such as restricted access to financing and inefficient government assistance systems hinder the international expansion of Chinese SMEs? Do adverse laws and regulations pose difficulties for SMEs' international expansion? How does the role of Chinese local and central government participation in the SMEs' capital and the public procurement contracts affect their decision making process regarding their expansion strategies? This article answers these questions by analysing data from around 500 Chinese SMEs operating in four different provinces: (i) the analysed evidence shows that SMEs' managers mainly perceive internal rather than institutions-based barriers, (ii) the analysed evidence suggests that SMEs expand internationally even when perceiving poor regulatory frameworks and weak support systems from the government, (iii) the analysed evidence shows that domestic regulations do not present a barrier for the international expansion of SMEs from China, and (iv) the analysed evidence shows that having the government as a customer has not proved to be a facilitator for the firm to expand internationally.

In other words, the findings from this study show that SMEs in the sample are basing their international expansion on "private" capabilities (which includes transfers from external private sources) rather than on the support from the government (the case for many MNCs). In addition, the perceived barriers for the international expansion of these firms are mainly internal rather than institutional, i.e. no institution-based barrier seems to prevent Chinese SMEs to expand internationally. And there are no main differences in the regions of China where companies are based in terms of public policies or institutions.

These findings highlight the need to continue the study of the development of SMEs from China as the vast majority of academic literature relates to the characteristics of Chinese MNCs and their international expansion. In this sense, three main areas for future research are proposed: (i) the impact of institutions in the development of Chinese firms and especially SMEs, (ii) the suitability of the Chinese business environment for the next stage of SMEs' international expansion, mainly FDI, and (iii) future developments of Chinese SMEs.

FIGURE 1: PUBLIC POLICIES AND INSTITUTIONAL DETERMINANTS OF CHINESE SMES' INTERNATIONAL EXPANSION: A FRAMEWORK

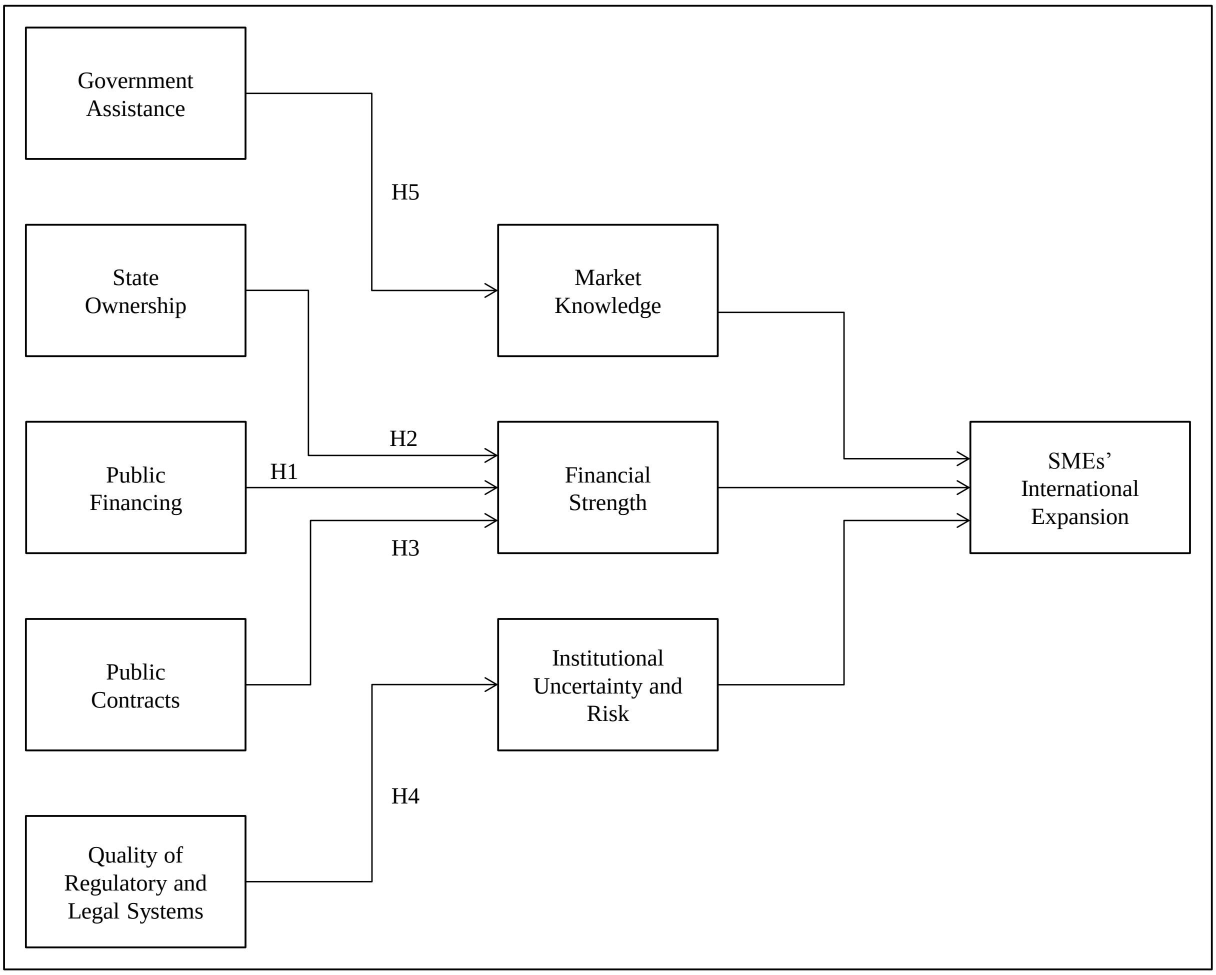

TABLE 1: SELECTED ANSWERS FROM THE SURVEY (N=582)

Age of respondent		Gender of respondent		Studies of respondent		State-owned	Active Participation of family members			Funding sources in the last two years			Years since start-up	
35-44	45-54	M	F	UG	PG		Sons	Husband / wife	Father/ mother	Loans from banks	Own savings	Previous years' profits	6-10	>10
38%	29%	77%	23%	59%	13%	21%	14%	32%	15%	33%	14%	16%	22%	41%

Profits during last year					Main Activity*											
Decreased	Slightly decreased	Kept at same level	Slightly increased	Increased	Manufacture	Hotel / Restaurant	Retail	Wholesale	Prof. Services	IT	Construction	Transport	Real estate	Finance / insurance	Health / Education	Others
10%	12%	17%	31%	28%	34%	5%	7%	12%	8%	4%	6%	5%	5%	4%	4%	18%

*: total may not equal 100% as some SMEs reported more than one activity, like retail and wholesale for example.

TABLE 2: DEFINITION OF SMALL AND MEDIUM-SIZED ENTERPRISES (NATIONAL BUREAU OF STATISTICS OF CHINA, 2009)

	Employees	Sales	Total Assets
Industry	2,000	3,000	4,000
Construction	3,000	3,000	4,000
Wholesale	200	3,000	
Retail	500	1,000	
Transportation	3,000	3,000	
Postal Service	1,000	3,000	
Accommodation & Restaurant	800	3,000	

TABLE 3: DEFINITION OF VARIABLES

Scale Variables. 5-Point Likert-Type Scale

Finance	The company does not have access to the necessary financial resources to fund an export-oriented plan	Payment	Payment collections make export activities more difficult
Contacts	The company has difficulties to identify and contact potential customers in markets overseas	Assistance	The government does not offer adequate assistance and incentives to carry out export activities
InfoSources	The company does not have access to the relevant information sources to identify external markets for the company's products and services	DomRegulations	The regulations in place make it more difficult to capitalise on opportunities in international markets
Familiarity	Lack of familiarity with commercial practices abroad affects the company's operations	EconEnvironment	The deterioration of the countries' economic environment is an additional barrier to exports
Paperwork	It is considered that the paperwork related to exports is complicated and costly	ExchRate	Exchange rate variations represent an important risk for the company's exports
SocioCultural	The socio-cultural differences (religion, values, customs, attitudes, etc.) are considered obstacles to export activities	Verbal	The differences in verbal and non-verbal language affect the activities carried out in external markets

Ordinal Variables

Personal	Own Savings, Family, Second Mortgage, Credit Card, Loans from Friends, Inheritance, and Pension	Industry	Manufacture, Hotel/Rest, Retailer, Wholesaler, Professional SS, IT, Construction, Transportation, Real estate, Finance/insurance, Health/Education/Social SS, Others.
StateSupport	Overdrafts, Subsidies, Leasing, Loans from Banks, and Subsidised Loans.	Private	Venture Capital, Suppliers, Other Business, Previous Years' Profits, Private Investors, and Depreciation.
Family	% of the company owned by the family.	Financial Institutions	% of the company owned by financial institutions.
State	% of the company owned by the state	Special Partnerships	% of the company owned by other partners, including JVs, OEM, and other international partners.
Manufacture	% of the company's sales to Manufacturing companies	Wholesale	% of the company's sales to Wholesalers.
LocalGov	% of the company's sales to the Local Government.	NoManufacture	% of the company's sales to Non-Manufacturing companies.
Retail	% of the company's sales to Retailers.	NatGov	% of the company's sales to the National Government.
Others	% of the company's sales to Other customers.		

TABLE 4: RESULTS OF THE INDEPENDENT SAMPLES T-TEST

	Mean	Std. Deviation		Levene's Test F	Levene's Test Sig.	t	Sig. (2-tailed)
CW	0.16	0.32					
ER	0.17	0.29	Equal variances assumed	1.30	0.25	-0.12	0.91

TABLE 5: CORRELATION MATRIX FOR SCALE VARIABLES – KENDALL'S τ COEFFICIENT

	Finance	DomRegulations	ExchRate	Paperwork	Payment	EconEnvironment	Contacts	InfoSources	Familiarity	Assistance	Socio-cultural	Verbal	VIF
Finance	1.00												1.04
DomRegulations	.092*	1.00											1.16
ExchRate	.210**	.187**	1.00										1.39
Paperwork	.134**	.167**	.225**	1.00									1.39
Payment	.140**	.287**	.212**	.396**	1.00								1.40
EconEnvironment	.176**	.157**	.442**	.298**	.199**	1.00							1.44
Contacts	0.06	.094*	.089*	.154**	.120**	.112**	1.00						1.06
InfoSources	.103*	0.00	.204**	.089*	0.02	.136**	.127**	1.00					1.04
Familiarity	.127**	.229**	.175**	.334**	.272**	.212**	.136**	.126**	1.00				1.31
Assistance	0.07	0.03	.121**	.196**	.157**	.157**	0.01	0.03	0.07	1.00			1.08
Socio-cultural	.217**	.218**	.251**	.255**	.332**	.243**	.101**	.108**	.385**	.131**	1.00		1.53
Verbal	.100**	.337**	.180**	.286**	.427**	.227**	0.07	0.06	.352**	.190**	.475**	1.00	1.72

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

TABLE 6: CORRELATION MATRIX FOR ORDINAL VARIABLES– PEARSON'S ρ COEFFICIENT

	Personal	State support	Family	State	SpecialPartnerships	Manufacture	Local Government	Retail	Industry	Private	Financial institutions	Wholesale	NoManufacture	National Government	Others	VIF
Personal	1.0															1.0
State support	0.0	1.0														1.0
Family	.167**	-0.1	1.0													2.9
State	-.190**	0.1	-.554**	1.0												2.5
SpecialPartnerships	0.0	-0.1	-.329**	-.238**	1.0											1.9
Manufacture	-0.1	0.0	-0.1	0.0	.101*	1.0										17.3
Local Government	0.0	0.0	-.093*	.122**	-0.1	-.155**	1.0									5.2
Retail	0.0	0.0	0.0	0.0	0.0	-.320**	-.158**	1.0								16.0
Industry	0.0	0.0	-.187**	.133**	0.0	-.121*	.166**	0.0	1.0							1.0
Private	0.1	0.1	.223**	-.279**	.100*	0.0	-.101*	0.0	0.0	1.0						1.1
Financial institutions	0.0	0.0	-.187**	-.131**	-0.1	0.0	0.0	-0.1	.130**	0.1	1.0					1.3
Wholesale	0.1	0.0	0.1	-.091*	0.0	-.346**	-.200**	-.289**	-0.1	0.0	0.0	1.0				19.9
NoManufacture	0.0	0.0	0.0	0.0	0.0	-.144**	0.0	-.203**	.123**	0.0	0.0	-.245**	1.0			8.1
National Government	0.0	0.0	0.0	0.1	-0.1	-.103*	0.0	-.105*	0.0	0.1	0.0	-.123**	0.0	1.0		3.0
Others	0.0	0.0	0.0	-0.1	0.0	-.151**	0.0	-.110*	0.1	0.0	0.0	-.223**	-.105*	0.0	1.0	6.8

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

TABLE 7: RESULTS FROM REGRESSIONS

		Panel A: WS		Panel B: CW		Panel C: ER	
		β	*t*	β	*t*	β	*t*
H1	a	0.25	*4.61*	-0.28	*-1.92*	0.29	*3.17*
	Exp/GDP	0.12	*1.19*	7.81	*3.81*	0.14	*0.73*
	Industry	-0.01	*-2.02*	-0.01	*-2.12*	0.00	*0.17*
	Finance	-0.02	*-1.78*	0.02	*0.99*	-0.05	*-2.48*
	Personal	-0.03	*-1.69*	-0.03	*-1.39*	-0.04	*-1.54*
	State support	0.03	*1.70*	0.02	*0.76*	0.05	*1.67*
	Private	-0.01	*-0.93*	-0.02	*-0.96*	-0.04	*-2.02*
	R^2	0.03		0.10		0.08	
	Durbin Watson	1.71		1.72		1.82	
H2	a	0.14	*2.71*	-0.10	*-0.62*	0.41	*1.91*
	Exp/GDP	0.12	*1.15*	4.72	*1.71*	-0.03	*-0.15*
	Industry	-0.01	*-1.80*	-0.01	*-2.04*	-0.00	*-0.36*
	State	0.07	*1.27*	0.01	*0.21*	0.08	*0.38*
	Family	0.05	*0.91*	0.05	*0.65*	-0.28	*-1.39*
	SpecialPartnerships	-0.00	*-0.07*	0.02	*0.30*	-0.26	*-1.26*
	Financial institutions	-0.00	*-0.01*	-0.09	*-0.85*	-0.08	*-0.37*
	R^2	0.02		0.09		0.14	
	Durbin Watson	1.71		1.71		1.80	
H3	a	-0.08	*-0.44*	-0.19	*-0.87*	-0.42	*-1.08*
	Exp/GDP	0.15	*1.42*	6.24	*3.26*	0.21	*1.05*
	Industry	-0.00	*-1.24*	-0.01	*-1.71*	0.01	*1.05*
	Local Government	0.22	*1.14*	0.06	*0.25*	0.44	*1.14*
	National Government	0.14	*0.66*	-0.11	*-0.43*	0.52	*1.23*
	Wholesale	0.24	*1.33*	0.01	*0.04*	0.47	*1.24*
	Manufacture	0.27	*1.52*	0.03	*0.16*	0.57	*1.49*
	NoManufacture	0.15	*0.81*	-0.11	*-0.50*	0.44	*1.11*
	Retail	0.32	*1.79*	0.08	*0.39*	0.55	*1.43*
	Others	0.19	*1.03*	0.02	*0.08*	0.30	*0.78*
	R^2	0.03		0.10		0.05	
	Durbin Watson	1.71		1.74		1.78	
H4	a	0.20	*3.21*	-0.14	*-0.82*	0.06	*0.64*
	Exp/GDP	0.08	*0.80*	5.97	*3.10*	0.03	*0.14*
	Industry	-0.01	*-2.18*	-0.01	*-2.43*	0.00	*0.62*
	DomRegulations	-0.00	*-0.07*	0.00	*0.16*	-0.02	*-1.13*
	ExchRate	-0.07	*-3.71*	-0.08	*-2.77*	-0.05	*-1.83*
	Paperwork	0.03	*2.04*	0.03	*1.26*	0.05	*2.15*
	Payment	0.02	*0.97*	0.00	*0.11*	0.05	*2.20*
	EconEnvironment	0.01	*0.45*	0.03	*1.26*	0.00	*0.11*
	R^2	0.05		0.12		0.08	
	Durbin Watson	1.73		1.75		1.87	
H5	a	0.04	*0.51*	-0.10	*-0.57*	-0.23	*-2.22*
	Exp/GDP	0.10	*1.05*	4.89	*2.56*	0.05	*0.24*
	Industry	-0.01	*-1.50*	-0.01	*-2.20*	0.01	*1.31*
	Contacts	0.05	*3.18*	0.02	*1.05*	0.08	*3.75*
	InfoSources	-0.05	*-2.61*	-0.04	*-1.41*	-0.04	*-1.56*
	Payment	-0.01	*-0.44*	-0.01	*-0.36*	0.01	*0.52*
	Assistance	-0.01	*-0.80*	-0.04	*-2.00*	0.04	*1.75*
	Familiarity	0.05	*2.92*	0.01	*0.57*	0.07	*2.63*
	Socio-cultural	0.02	*0.93*	0.02	*0.83*	0.03	*0.98*
	Verbal	0.00	*0.09*	0.03	*1.09*	-0.04	*-1.56*
	R^2	0.07		0.12		0.17	
	Durbin Watson	1.77		1.78		1.94	

TABLE 8: SUMMARY OF THE RESULTS ($|\beta_m/S_b|>t_{n-3}$; 0.95).

	Whole Sample (WS)	Central and Western regions (CW)	Eastern Region (ER)
H1	*Finance* *Personal* *State support*	*None*	*Finance* *State support* *Private*
H2	*None*	*None*	*None*
H3	*Retail*	*None*	*None*
H4	*Exchange Rate* *Paperwork*	*Exchange Rate*	*Exchange Rate* *Paperwork* *Payment*
H5	*Contacts* *Info Sources* *Familiarity*	*Assistance*	*Contacts* *Assistance* *Familiarity*

REFERENCES

Barney, J. (1991). "Firm resources and sustained competitive advantage". *Journal of Management*(17), 99-120.

Barney, J., & Zhang, S. (2009). "The future of Chinese management research: a theory of Chinese management versus a Chinese theory of management". *Management and Organization Review, 5*(1), 15-28.

Barret, N., & Wilkinson, I. (1985). "Export stimulation: a segmentation study of the exporting problems of Australian manufacturing firms". *European Journal of Marketing, 19*(2), 53-72.

Batson, A. (2009, 27/10/2009). Small-Business Lending Getting Smaller. *The Wall Street Journal China*.

Bhagat, R., McDevitt, A., & McDevitt, I. (2010). "On Improving the Robustness of Asian Management Theories: Theoretical Anchors in the Era of Globalization". *Asia Pacific Journal of Management, 27*(2), 179-192.

Blazquez-Lidoy, J., Rodriguez, J., & Santiso, J. (2006). *Angel or devil? China's trade impact on Latin American emerging markets*. Paris: OECD Development Centre.

Boisot, M., & Meyer, M. (2008). "Which Way Through the Open Door? Reflections on the Internationalization of Chinese Firms". *Management and Organization Review, 4*(3), 349-365.

Bonaccorsi, A. (1992). "On the relationship between firm size and export intensity". *Journal of International Business Studies, 23*(4), 605-635.

Brandt, L., & Li, H. (2002). "Bank discrimination in transition economies: ideology, information, or incentives?". *The William Davidson Institute at the University of Michigan Business School Working Paper Number 517*(October).

Buckley, P. (2002). "Is the international business research agenda running out of steam?". *Journal of International Business Studies, 33*(2), 365-374.

Buckley, P., Clegg, J., Cross, A., Liu, X., Voss, H., & Zheng, P. (2007). "The determinants of Chinese outward foreign direct investment". *Journal of International Business Studies, 38*(4), 499-518.

Buckley, P., & Ghauri, P. (1988). *The internationalization of the firm: a Reader*. Andover: Cengage Learning Business Press.

Cai, S., Jun, M., & Yang, Z. (2010). "Implementing supply chain information integration in China: The role of institutional forces and trust". *Journal of Operations Management, 28*, 257-268.

Calhoun, M. (2002). "Unpacking liability of foreignness: identifying culturally driven external and internal sources of liability for the foreign subsidiary". *Journal of International Management, 8*(3), 301-321.

Calof, J. (1994). "The relationship between firm size and export behaviour revisited". *Journal of International Business Studies, 25*(2), 367-387.

Cardoza, G., & Fornes, G. (2011a). "The Internationalisation of SMEs from China: the Case of Ningxia Hui Autonomous Region". *Asia Pacific Journal of Management, 28*(4), 737-759.

Cardoza, G., & Fornes, G. (2011b). "National and International Expansion of Chinese SMEs. A Different Story?". In X. Fu (Ed.), *China's Role in Global Economic Recovery*. London: Routledge.

Cardoza, G., & Fornes, G. (2012). "The international expansion of China's Small and Medium Sized enterprises. A review.". *SPAIS University of Bristol Working Paper Series, 05*(12).

Chen, J. (2006). "Development of Chinese Small and Medium-Sized Enterprises". *Journal of Small Business and Enterprise Development, 13*(2), 140-147.

Child, J., & Lu, Y. (1996). "Institutional constraints on economic reform: the case of investment decisions in China". *Organization Science*(7), 60-67.

Child, J., & Rodrigues, S. (2005). "The internationalization of Chinese firms: a case for theoretical extension?". *Management and Organization Review, 1*(3), 381-410.

China Daily. (2012). China to support SMEs via govt purchasing. Retrieved 20/10/2012, from http://www.chinadaily.com.cn/business/2012-01/02/content_14370227.htm

China Economic Review. (2009). Grasp the small: Chinese SMEs are short on credit and facing bankruptcy. Retrieved 10/10/2012, from http://www.ceibs.edu/alumni/alumniactivities/calendar/10/66892.shtml

Cunningham, L. (2011). "SMEs as a motor of growth: A review of China's SMEs development in thirty years (1978–2008)". *Human Systems Management, 30*, 39-54.

Davis, L., & North, D. (1971). *Institutional Change and American Economic Growth*. Cambridge: Cambridge University Press.

Deng, P. (2011). "The internationalization of Chinese firms: a critical review and future research". *International Journal of Management Reviews, DOI: 10.1111/j.1468-2370.2011.00323.x*.

Deutsche Bank. (2012). DB Research. Retrieved 1/10/2012, from http://www.dbresearch.com/servlet/reweb2.ReWEB?rwnode=DBR_INTERNET_EN-PROD$RMLCHPM&rwsite=DBR_INTERNET_EN-PROD

Ding, Q., Akoorie, M., & Pavlovich, K. (2009). "Going International: The Experience of Chinese Companies". *International Business Research, 2*(2), 148-152.

Dunning, J. (2003). "Some antecedents of internalization theory". *Journal of International Business Studies, 34*(2), 108-115.

Eden, L., & Miller, S. (2004). "Distance matters: liability of foreignness, institutional distance and ownership strategy". In M. Hitt & J. Cheng (Eds.), *Theories of the Multinational Enterprise: Diversity, Complexity and Relevance" (Advances in International Management, Volume 16)*: Emerald Group Publishing Limited.

Eisenhardt, K. (1989). "Building Theories from Case Study Research". *Academy of Management Review, 14*(4), 532-550.

Eisenhardt, K., & Graebner, M. (2007). "Theory Building from Cases: Opportunities and Challenges". *Academy of Management Journal, 50*(1), 25-32.

Fornes, G., & Butt Philip, A. (2012). *The China-Latin America Axis. Emerging markets and the future of globalisation*. Basingstoke: Palgrave Macmillan.

Fornes, G., Cardoza, G., & Xu, S. (2012). "The national and international expansion of Chinese SMEs: evidence from Anhui Province". *Journal of Chinese Entrepreneurship, 4*(3), 221-242.

Gao, Y. (2008). "Institutional Environment and MNEs' Strategy in Transitional China". *Managing Global Transitions, 6*(1), 5-21.

Ge, G., & Ding, D. (2008). "A Strategic Analysis of Sourcing Chinese Manufacturers: the Case of Galanz". *Asia Pacific Journal of Management, 25*(4), 667-683.

Hofstede, G. (1981). "Culture and organizations". *International Studies of Management and Organization, 10*(4), 15-41.

Hofstede, G., & Bond, M. (1988). "The Confucius connection: from cultural roots to economic growth". *Organizational Dynamics, 16*(4), 5-21.

Hoskisson, R. E., Eden, L., Lau, C. M., & Wright, M. (2000). "Strategy in Emerging Economies". *Academy of Management Journal, 43*(3), 249-267.

Huang, Y., & Di, W. (2007). "A tale of two provinces: The institutional environment and foreign ownership in China". *China Finance Review, March*.

Hymer, S. (1960). *The international operations of national firms: a study of foreign direct investment*. Cambridge MA: MIT Press.

Johanson, J., & Vahlne, J. (1977). "The internationalization process of the firm. A model of knowledge development and increasing foreign market commitments". *Journal of International Business Studies, 8*, 23-32.

Kanamori, T., Lim, J., & Yang, T. (2007). "China's SME development strategies in the context of a national innovation system". *Asian Development Bank Institution Discussion Contribution No. 55*

Kogut, B., & Singh, H. (1988). "The effect of national culture on the choice of entry mode". *Journal of International Business Studies, 19*(3), 411-432.

Leonidou, L. (2004). "An Analysis of the Barriers Hindering Small Business Export Development". *Journal of Small Business Management, 42*(3), 279-302.

Li, H., Meng, L., Wang, Q., & Zhou, L.-A. (2008). "Political connections, financing and firm performance: Evidence from Chinese private firms". *Journal of Development Economics, 87*(2), 283-299.

Liu, X. (2007). "SMEs development in China: a policy perspective on SME industrial clustering in ASEAN SMEs and globalization". In H. Lim (Ed.), *ERIA research project report Number 5*.

Liu, X. (2009). "Impacts of the Global Financial Crisis on Small and Medium Enterprises in the People's Republic of China". *Asian Development Bank Institute, Working Paper 180*.

Lu, J., & Beamish, P. (2001). "The internationalization and performance of SMEs". *Strategic Management Journal, 22*(6/7), 565-586.

Lu, J., & Tao, Z. (2010). "Determinants of Entrepreneurial Activities in China". *Journal of Business Venturing, 25*, 261-273.

Ma, J., Wang, S., & Gui, J. (2010). "A Study on the Influences of Financing on Technological Innovation in Small and Medium-Sized Enterprises". *International Journal of Business and Management, 5*(2), 209-212.

Makino, S., Chung-Ming, L., & Rhy-Song, Y. (2002). "Asset-exploitation versus asset-seeking: implications for location choice of foreign direct investment from newly industrialized economies". *Journal of International Business Studies, 33*(3), 403-421.

Mathews, J. (2006). "Dragon Multinationals: new players in 21st century globalization". *Asia Pacific Journal of Management, 23*(1), 5-27.

Mezias, S., Chen, Y.-R., Murphy, P., Biaggio, A., Chuawanlee, W., Hui, H., et al. (2002). "National cultural distance as liability of foreignness: the issue of level of analysis". *Journal of International Management, 8*(4), 407-421.

National Bureau of Statistics of China. (2009). Retrieved 20/6/09, from http://www.stats.gov.cn/english/

Nolan, P. (2002). "China and the global business revolution". *Cambridge Journal of Economics, 26*(1), 119-137.

North, D. (1990). *Institutions, institutional change, and economic performance*. New York: Cambridge University Press.

North, D. (1991). "Institutions". *The Journal of Economic Perspectives, 5*(1), 97-112.

North, D. (1993). The New Institutional Economics and Development. Retrieved 18/3/2011, from Http://econwpa.wustl.edu:8089/eps/eh/papers/9309/9309001.pdf

North, D. (1995). "Five propositions about institutional change". In J. Knight & I. Sened (Eds.), *Exploring social institutions*. Michigan: University of Michigan Press.

O'Brien, R. (2007). "A caution regarding rules of thumb for variance inflation factors". *Quality & quantity. International Journal of Methodology, 41*(5), 673-690.

Palepu, K., Khanna, T., & Vargas, I. (2006). "Haier: Taking a Chinese Company Global". *Harvard Business School Cases, 9-706-401*.

Peng, M. (2002). "Towards an Institution-Based View of Business Strategy". *Asia Pacific Journal of Management, 19*, 251-267.

Peng, M. (2004). "Identifying the big question in international business research". *Journal of International Business Studies, 35*(2), 99-108.

Peng, M., & Heath, P. (1996a). "The growth of the firm in planned economies in transition: institutions, organisations, and strategic choice.". *Academy of Management Review*(21), 492-528.

Peng, M., & Heath, P. (1996b). "The growth of the firm in planned economies in transition: Institutions, organizations, and strategic choice". *Academy of Management Review, 21*(2), 492-528.

Peng, M., Wang, D., & Jiang, Y. (2008). "An Institution-based view of international business strategy: a focus on emerging economies". *Journal of International Business Studies, 39*, 920-936.

People's Daily Online. (2010). *People's Daily Online* Retrieved 17/8/2010, from http://english.peopledaily.com.cn/index.html

Petersen, B., & Pedersen, T. (2002). "Coping with liability of foreignness: Different learning engagements of entrant firms". *Journal of International Management, 9*(3), 339-350.

Pettigrew, A. (1990). "Longitudinal Field Research on change: Theory and Practice". *Organization Science, 1*(3), 267-292.

Porter, M. (1980). *Competitive Strategy*. New York: Free Press.

Rugman, A., & Li, J. (2007). "Will China's multinationals succeed globally or regionally?". *European Management Journal, 25*(5), 333-343.

Rui, H., & Yip, G. (2008). "Foreign Acquisitions by Chinese Firms: a strategic intent perspective". *Journal of World Business, 43*(2), 213-226.

Sandberg, S. (2009). "Internationalization patterns of Chinese SMEs: Take Off Nodes and Initial Stages of Internationalization". In EIBA (Ed.), *Research on Knowledge, Innovation and Internationalization (Progress In International Business Research) Vol. 4* (pp. 89-114). Bingley: Emerald.

Santiso, J. (2005a). America Latina y Asia: bailando con los tigres y los dragones asiaticos. *Anuario Elcano: America Latina 2004-2005*, 275-298.

Santiso, J. (2005b). "La emergencia de China y su impacto en America Latina". *Politica Exterior, 19*(107), 97-112.

Schroeder, L., Sjoquist, D., & Stephan, P. (1986). *Understanding Regression Analysis. An Introductory Guide* (Vol. 07). Beverly Hills: SAGE.

Shamsuddoha, A., Yunus Ali, M., & Ndubisi, N. (2009). "Impact of government export assistance on internationalization of SMEs from developing nations". *Journal of Enterprise Information Management, 22*(4), 408-422.

Shen, Y., Shen, M., Xu, Z., & Bai, Y. (2009). "Bank Size and Small- and Medium-sized Enterprise (SME) Lending: Evidence from China". *World Development, 37*(4), 800-811.

SINA. (2012). Enterprises' business conditions worsen in Q1. Retrieved 10/10/2012, from http://english.sina.com/business/2012/0416/458559.html

Spar, D., & Oi, J. (2006). "China: Building "Capitalism with socialist characteristics"". *Harvard Business School Cases, 9-706-041*.

STRATFOR. (2011, 23/6/2011). Smaller Companies' Troubles Challenge China's Economic Policy. *Forbes*.

Sutherland, D., & Ning, L. (2011). "Exploring "onward-journey" ODI strategies in China's private sector business". *Journal of Chinese Economic and Business Studies, 9*(1), 43-65.

The Economist. (2009, 10/9/2009). China's struggling smaller firms. Small fish in a big pond. *The Economist*.

Wei, Y. (2002). "Beyond the Sunan model: trajectory and underlying factors of development in Kunshan, China". *Environment and Planning A, 34*(10), 1725-1747.

White, H. (1980). "A heteroskedasticity-constant covariance matrix estimator and a direct test for heteroskedasticity". *Econometrica, 48*, 817-838.

Williamson, O. (1985). *The economic institutions of capitalism: firms, markets, relational contracting*. New York: Free Press.

Williamson, P., & Yin, E. (2009). "Racing with the Chinese dragons". In I. Alon, J. Chang, M. Fetscherin & C. Lattemann (Eds.), *China Rules. Globalization and Political Transformation* (pp. 69-100). Basingstoke and New York: Palgrave Macmillan.

World Bank. (2011). Promoting Commercially-sustainable Lending to Micro and Small Enterprises. Retrieved 8/8/2011, from http://www.worldbank.org/en/news/2011/07/21/china-promoting-commercially-sustainable-lending-to-micro-and-small-enterprises

Wright, M., Filatotchev, I., Hoskisson, R. E., & Peng, M. W. (2005). "Strategy Research in Emerging Economies: Challenging the Conventional Wisdom". *Journal of Management Studies, 42*(1), 1-33.

Yamakawa, Y., Peng, M., & Deeds, D. (2008). "What drives new ventures to internationalize from emerging to developed economies?". *Entrepreneurship Theory and Practice, 32*(1), 59-82.

Yang, X., Jiang, Y., Kang, R., & Ke, Y. (2009). "A comparative analysis of the internationalization of Chinese and Japanese firms". *Asia Pacific Journal of Management, 26*(1), 141-162.

Yeung, H. (2002). *Entrepreneurship and the internationalisation of Asian firms: an institutional perspective*. Cheltenham: Edward Elgar.

Yuan, N., & Vinig, T. (2007). "Ownership structure of Chinese SME's and the challenges it presents to their growth". *University of Amsterdam, Netherlands. Sprouts: Working Papers on Information Systems Number 7 (2).*

Zaheer, S. (1995). "Overcoming the Liability of Foreignness". *Academy of Management Journal, 38*(2), 341-363.

Zeng, M., & Williamson, J. (2003). "The hidden dragons ". *Harvard Business Review, October 2003*, 92-99.

Zhang, Z., & Cheong, K.-C. (2011). *China's SMEs and the global crisis: challenges and opportunities.* Paper presented at the SMEs in a Global Economy Conference - Rising to the Global Challenge: Entrepreneurship and SMEs development in Asia, Thailand.

Zhiming, Z. (2010). *Inside the growth engine. A guide to China's regions, provinces, and cities* Hong Kong: HSBC.

Zhu, Y., Wittmann, X., & Peng, M. (2011). "Institution-based barriers to innovation in SMEs in China". *Asia Pacific Journal of Management, 29*(4), 1131-1142.