THE INTERNATIONAL EXPANSION OF CHINA’S SMALL AND MEDIUM-SIZED FAMILY BUSINESS. STATUS TODAY AND FUTURE OUTLOOK

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ABSTRACT
Purpose: The paper critically analyses the relevant literature on the international expansion of China’s small and medium-sized family enterprises with the aim of highlighting the main topics analysed by scholars and identifying areas for future research.

Design: The paper reviews the works on the international growth of China’s SMFEs published in selected peer-reviewed English-language journals vis-à-vis what has been published on Chinese MNEs and Western SMFEs. It does this by, first, studying the literature at both firm and industry levels and, second, by analysing the specific characteristics of small business from China along with the particularities of the Chinese business environment.

Findings: The paper highlights the need to deepen the understanding of the process leading to SMFEs’ expansion beyond China’s borders to conclude with the identification of areas for future research.

Keywords: Emerging economy firms, SMEs, Family Business, National and International Expansion, China

General review paper
INTRODUCTION

What do we already know about the international expansion of Chinese SMFEs (small and medium-sized family enterprises)? What do we need to know to gain a better understanding on how Chinese SMFEs develop internationally? Answering these questions is relevant as SMFEs 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). Nevertheless, most of the research on Chinese firms has focused almost exclusively on multinational corporations (MNCs) and therefore, there is a major gap in the academic literature.

In addition, the few published studies on Chinese SMFEs are very narrow in focus and cover only a scattered range of areas such as the drivers/barriers to international growth (Ahlstrom, Young, Chan, & Bruton, 2004; Cardoza & Fornes, 2011a; Carney, 1998; Tsang, 2001; Young, Chan, & Bruton, 2004), the environment faced by Chinese SMFEs (Boisot & Meyer, 2008; Poutziouris, Wang, & Chan, 2002), the human resources practices (Zheng, O’Neill, & Morrison, 2009), the institutional barriers to innovation and growth (Carney & Gedajlovic, 2002; Zhu, Wittmann, & Peng, 2011), the marketing and IT capability performance (Siu, Fang, & Lin, 2004; Zhang, Sarker, & Sarker, 2008), the relation between entrepreneurship and internationalisation (Li, Zhao, Tan, & Liu, 2008; Liu, Xiao, & Huang, 2008; Yamakawa, Peng, & Deeds, 2008), the financing of high-tech SMFEs (Xiao, 2011), the relation between networks and international development (Chu, 1996; Tang, 2011; Zhou, Wu, & Luo, 2007), the organisation/performance of SMFEs overseas (Gebre-Egziabher, 2007; Rademakers, 1998; Tsang, 2002; Wai-chung Yeung, 2000; Weidenbaum, 1996), the historical evolution of SMFEs (Po-yin Chung, 2005; Poutziouris et al., 2002), the transition and professional management (Chung & Yuen, 2003; Tan & Fock, 2001; Tsui-Auch, 2004), or SMFEs and Dunning’s OLI paradigm (Erdener & Shapiro, 2005). This limited number of published articles is far from constituting a strong body of literature on Chinese SMFEs in general and on their international expansion in particular.

Overall, this article makes three contributions within the key questions presented above. First, it makes a thorough analysis of the academic literature and the context in which Chinese SMFEs operate vis-à-vis what has been published on MNCs from China. Second, the article presents a set of future research areas aimed at extending the knowledge of how Chinese SMFEs expand to international markets. Third, a consequence of the previous two, the analysis in the paper enriches the current debate on the need to develop a theory of Chinese management versus the need to develop a Chinese theory of management (Alon, Child, Li, & McIntyre, 2011; Barney & Zhang, 2009; Child & Rodrigues, 2005; Deng, 2011; Mathews, 2006).

This paper is structured as follows. The next section presents a description of the research method followed by an analysis of the relevant literature on Chinese SMFEs and the context they face. Then, the paper continues with a discussion in two main areas: the impact of the Chinese business environment on the international expansion of SMFEs and the need to understand different elements of the process to develop a sound firm-level body of literature. The paper finishes with a suggested list of future key research topics and conclusions.

RESEARCH METHOD

The focus of the analysis is both small and medium-sized business (SMEs) and family business together as “most SMEs (especially micro and small enterprises) are family businesses and a large majority of family companies are SMEs” (European Commission, 2009, p. 4). In fact, for the case of China over 85% of family business are SMEs (People's Daily Online, 2011). For this reason the two types of business are reported together, although
the analysis differentiates them when needed to address their own specific characteristics deriving from their ownership, origin, financing, governance, etc.

Similar to previous works on the topic (Deng, 2011; Peng, Lu, Shenkar, & Wang, 2001), the present analysis is based on peer-reviewed English-language journal articles thus excluding books, book chapters, teaching cases, edited volumes, as well as any other non-refereed publication. This is because journal articles are considered as validated knowledge and therefore have the highest impact on the different fields (Armstrong & Wilkinson, 2007; Judge, Cable, Colbert, & Rynes, 2007). Four criteria were considered to have a comprehensive coverage of the literature across different fields: (i) cross-cultural and international publications (Wong & Chan, 2003), (ii) mainstream management and international business journals (Peng et al., 2001), (iii) leading (ISI-indexed) Asia/China-related journals, and (iv) leading scholarly practitioner journals (Cardoza & Fornes, 2010); these were chosen following Deng’s (2011) review of Chinese MNCs to improve comparability.

To be included in the analysis, a paper should have adopted an empirical or theoretical approach to study the international expansion of SMFEs from China at the firm level. For this purpose, international expansion was defined as “the firm’s ability to initiate, to develop, or to sustain business operations” outside their local market (Leonidou, 2004, p. 281). Within this definition the focus was only outward internationalisation, and therefore inward internationalisation was excluded. A total of twenty three papers published in twenty different journals were identified. Every effort was made to be thorough in the search, although the possibility remains that some articles may have unintentionally been missed. A breakdown of the works can be seen in Table 1 and the analysis of the findings follows.

[Insert Table 1 around here]

**WHAT DO WE KNOW ABOUT THE INTERNATIONAL EXPANSION OF CHINESE SMFEs?**

We know very little, at least in terms of fully and clearly understanding how Chinese SMFEs expand internationally. Nevertheless, research on management and on the internationalisation of Chinese companies has been growing in recent years but most of these studies were on outward FDI from state-owned enterprises (SOE) and MNCs (Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007; Deng, 2011; Peng et al., 2001; Wong & Chan, 2003). Also, other studies were published on the specific characteristics of China’s firms in their internationalisation process (Barney & Zhang, 2009; Bruton & Lau, 2008; Child & Rodrigues, 2005; Mathews, 2006) but not many studies on SMFEs were found as shown above. This becomes apparent when comparing the twenty three papers on SMFEs internationalisation encountered in this review with the 121 papers on the internationalisation of Chinese MNCs reviewed by Deng (2011)¹. Considering the proportion of China’s GDP and exports accounted for by SMFEs, the focus of academic research on Chinese internationalisation is clearly unbalanced.

In this context, and probably due to the low number of works, research on Chinese SMFEs has been relatively fragmented, disconnected, and covering only a scattered range of areas, as presented in the Introduction. In addition, the first works applied individual established conceptual frameworks developed in/for Western companies like social networks (Chu, 1996), transaction costs (Carney, 1998), business systems (Rademakers, 1998), knowledge-based and organisational learning (Tsang, 2001, 2002), or Dunning’s Eclectic paradigm (Erdener & Shapiro, 2005). However, research works published lately have usually relied on a combination of established conceptual frameworks. Some of these combinations are the Uppsala model + international new ventures (Liu et al., 2008), the industry-based + resource-
based + institution-based views (Yamakawa et al., 2008), transaction costs + institutional arbitrage (Boisot & Meyer, 2008), cost-risk-opportunity triangle + institution-based view (Zhu et al., 2011), barriers to internationalisation + LLL (Cardoza & Fornes, 2011a), entrepreneurial orientation + market orientation (Li et al., 2008), or an adapted version of the life cycles theories tailored to the Chinese situation (Xiao, 2011). This may suggests that as the understanding of the international expansion of Chinese SMFEs grows, individual mainstream theories may not explain the phenomenon accurately. This contrasts with the developing trend found by Deng (2011) that shows that the resource-based view and institutional theories are being increasingly adopted by researchers in their studies of Chinese MNCs.

These two elements – the relatively low number of works on the international expansion of Chinese SMFEs (compared with those on MNCs) and the need to rely on a combination of several mainstream theories (that were developed studying western firms) to explain the phenomenon – highlight the challenges of doing research on Chinese SMFEs. These challenges can be explained by two main reasons: (i) the characteristics of Chinese firms and their fit (or lack of) with received theories, and (ii) the singular context in which Chinese SMFEs operate.

**Characteristics of Chinese Firms and Their Fit (or lack of) With Received Theories**

Most of the literature on the internationalisation of companies from emerging and transition economies is based on adaptations of mainstream theories which have been developed in Western economies studying the experiences of their multinational corporations (see for example, Lecraw (1993), Wells (1983), or Hoskisson, Eden, Lau, and Wright (2000)). However, in the case of China it has been suggested that an extended theoretical framework may be needed due to its newly developed capitalist system, its culture, and its different market institutions (Alon et al., 2011; Barney & Zhang, 2009; Bhagat, McDevitt, & McDevitt, 2010; Boisot & Child, 1996; Boisot & Meyer, 2008; Child & Rodrigues, 2005; Child & Tse, 2001; Mathews, 2006). After all, “China is different from other less developed countries in terms of market size as well as cultural connections and may not fall into a regular LDC [less developed country] category” (Makino, Chung-Ming, & Rhy-Song, 2002, p. 412).

Child and Rodrigues (2005)² identified four differences between the Chinese business environment and the context in which mainstream theories have been developed: the need to catch-up, the role of the government, the possible institutional dependence, and the Chinese culture with its subsequent relatively higher psychic distance. This work also mentioned three main routes that Chinese companies have been taking towards their internationalisation, partnerships, acquisitions, and organic growth. One of them, partnerships, through original equipment manufacture (OEM) and/or joint venturing (JV), has been the preferred route by many Chinese SMFEs in their outward expansion process (Boisot & Meyer, 2008; Child & Rodrigues, 2005; Fornes & Cardoza, 2010), a route that has usually been regarded as inward internationalisation in Western economies. Among others, this is an example of the specific characteristics of China’s firms, and in particular of SMFEs, indicating that their outward internationalisation process differs from what mainstream internationalisation theories predict while at the same time lends support to the claim by Alon et al. (2011) that an “Eastern-centric theory may prove to show great potential in future theories of emerging markets’” firms.

This can also be seen in Deng’s (2011) review which shows that none of the 121 papers analysed in the review “is yet published in mainstream, first-tier (arguably the most influential) management journals, including Academy of Management Review, Academy of Management Journal, and Strategic Management Journal” (Deng, 2011, p. 3). Most of these papers are
included in special issues on the internationalisation of emerging markets-based enterprises (including China) and mainly in top International Business (IB) journals. In addition, 92 of the 121 papers (76%) published since 1991 in English-language journals have appeared between 2006 and 2010, which indicates the increasing interest to understand how China’s firms expand internationally.

These findings support that firm-level academic studies on the internationalisation of Chinese firms is still context-specific literature “which has not yet achieved much academic legitimacy outside the immediate environment of IB journals” (Deng, 2011, p. 3) and also that this research area has still not achieved a solid theoretical rigour, especially in terms of internal and construct validity (Barney & Zhang, 2009; Bhagat et al., 2010; Eisenhardt, 1989; Gibbert, Ruigrok, & Wick, 2008).

The Singular Context in Which Chinese SMFEs Operate

The impact of the environment on firms (and specifically on SMFEs) created by the “socialism with Chinese characteristics” stated in China’s 1982 Constitution is far from clear, especially as most studies have been based on mainstream macro-level theories that have been developed within the Anglo-Saxon free-market-oriented economies. In this sense, Buckley et al. (2007) made a list of the market imperfections encountered in China: (i) some SOE [State-Owned Enterprises], having capital available at below-market rates, (ii) subsidised or soft loans from banks influenced or owned by the government, (iii) an inefficient internal capital market that may encourage cross-subsidies in conglomerates, and (iv) cheap capital from the family to fund its company’s international expansion. Understanding this impact is necessary as the Chinese environment for the international expansion of firms is different from what can be found in the US, the EU or other OECD countries.

For the particular case of SMFEs, there are at least another four characteristics that made the context even more different from the one generally found in Western economies: (a) different stages of development, (b) different types of SMFEs, (c) diversity in regional development patterns within China, and (d) different definition for SMFEs.

a. Different stages of development. Three different stages can be distinguished, all of them marked with strong government intervention: the first stage, from 1978 to 1992, was characterised by strong support and encouragement from the government to establish collective and self-employed enterprises. The second stage, from 1992 to 2002, was characterised by the reform of state-owned SMFEs and the encouragement of the non-public sector. The third stage began in 2002 when China passed the SMFEs promotion law (Chen, 2006; Spar & Oi, 2006).

b. Different types of SMFEs. In the process described above led by changes in the government’s policy, two main types of SMFEs were created: (i) township and village enterprises, and (ii) non-public sector and, in particular, privately-owned SMFEs (Chen, 2006; Poutziouris et al., 2002; Weidenbaum, 1996). The first, township and village enterprises were “small manufacturing operations led frequently by local communist officials” (Spar & Oi, 2006, p. 7) that produced anything from local crafts to the manufacture of industrial equipment. The second, the development of the non-public sector and, in particular, privately-owned SMFEs, emerged after 2004 in particular when China amended the constitution to grant the non-state-owned economy a legal status. The development of these types of firms reflected the size of the changes going on in the country along with the encouragement for the development of business.

c. Diversity in regional development patterns within China. The local empowerment that began with decentralisation in 1979 and has continued until today has created different patterns of development of the business environments inside China. This is mainly because
most of the country’s vibrant expansion and much of its growth is driven by local initiatives rather than by directives from central government (Zhiming, 2010). The fact that local governments have beaten Beijing’s growth targets every year during the last three decades, that provinces have more ambitious plans for expansion (for example, of their rail networks or clean energy) than those stipulated by national targets, and that SMFEs represent the most important part of the country’s economic activity, provide evidence of the importance of the different local environments and regional development patterns.

d. Different definition for SMFEs. Although the definitions of family business are in general similar for China and other countries, the definition of small and mid-sized business in China is different from that in other countries and regions. For family business the emphasis on the ownership (by the family) and the decision-making power this ownership can exercise is present in most definitions (although there are some variations in the quantitative aspects like the percentage of decision making rights, etc) (Ahlstrom et al., 2004; European Commission, 2009; Weidenbaum, 1996). However, for small and medium-scaled companies, the National Bureau of Statistics of China (2009) defines SMEs based on a combination of industry, number of employees, sales, and total assets (see Table 1), while the European Union defines this kind of company as that employing fewer than 250 persons and with an annual turnover not exceeding €50 million and/or an annual balance sheet total not exceeding €43 million (European Commission, 2011) and the United States considers SMFEs to include firms with fewer than 500 employees (OECD, 2011). These differences add to the difficulties to do research using the same approaches and methodologies applied in Western countries.

[Insert Table 2 around here]

**Chinese SMFEs’ Internationalisation: A Different Story?**

As mentioned earlier, small and medium-size firms from China are currently responsible for more than half of the country’s exports and therefore they have become important players in world trade. Their success story provides strong evidence that Chinese SMFEs, in a relatively short period, have been able to adapt their structures, practices, and capabilities to successfully compete in world markets (Cardoza & Fornes, 2011a; Child & Rodrigues, 2005). This creates the need for understanding of their international expansion in the academic literature.

However, this understanding has been hindered by the same characteristics of the Chinese case. To start, the combination of the elements discussed above makes it challenging to analyse and fully understand the international expansion of Chinese SMFEs within the frameworks of received theories. In addition, the different stages in their development and the fact that only after 2002 were private SMFEs recognised under Chinese legislation makes it difficult to apply the concepts and frameworks developed in/for Western companies with a long tradition of operating in a free market environment and within well-established institutional fabrics.

On top of this, the different SME types and the diverse development patterns pursued by the various Chinese regions is evidence of the singular business environment in China. Also, the differences in the definition of SMFEs, the unit of analysis, make it more difficult to compare findings across countries as well as hampering the possibility of doing cross-regional studies. The fact that no academic work on Chinese companies (and for the purpose of this paper on SMFEs) is yet published in the most influential management journals appears as strong evidence of the difficulty to analyse and understand the phenomenon.
WHAT DO WE NEED TO KNOW TO UNDERSTAND HOW CHINESE SMFEs DEVELOP INTERNATIONALLY?

From the analysis presented above, two main areas for future research come into sight: (a) the impact of the Chinese business environment on the international development of SMFEs and, (b) the need to understand different elements of the process at the firm-level to develop a strong body of literature on the international expansion of China’s SMFEs. These two areas are elaborated below and their relations can be seen in Figure 1:

[Insert Figure 1 around here]

a- The Impact of the Chinese Business Environment on the International Development of SMFEs

This subsection includes three topics: (i) an analysis of the environment for business and its impact on international expansion strategies, (ii) a study of how SMFEs overcome institutional constraints and market failures, and (iii) a review of guanxi and the links with the government.

(i) The Environment for Business and Its Impact on International Expansion Strategies

Following North’s (1990) definition of institutions as “the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction...[and] define and limit the choices of individuals” (pp. 3-4) and considering that business environments also comprise “the system of market governance and, in particular, the extent and stability of a free market system” (Arnold & Quelch, 1998, p. 8) along with the “ease with which transactions can take place in any market and the cost associated with it” (Khanna & Palepu, 2002, p. 4), it becomes clear that economies should put in place a web of institutions to facilitate the efficient functioning of markets and that institutions in a market (country) should reduce uncertainty and provide a stable level playing field that facilitates interactions and diminishes both transaction and information costs.

However, this 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 et al., 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); (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).

These three areas of institutional voids are likely to be suffered by China for a long time to come as “building all the institutional infrastructure for well-functioning markets is a slow and time consuming process” (Khanna & Palepu, 2002, p. 4). In addition, institutional voids usually result in higher transaction costs. This is because the price system does not give reliable information for the efficient allocation of resources and, also, because sometimes the government’s discretion rather than the rule of law determines property rights and makes their enforcement more costly (Khanna & Palepu, 1997). These higher transaction costs have clear implications for mainstream IB theories, in particular on Dunning’s OLI (Dunning, 1977) and also for Buckley and Casson’s MNE (1976) concerned with internalising product markets and, as a consequence, benefiting from the reduction of these transaction costs as explained by Dunning (2003).
For Chinese SMFEs, the impact is not that clear. In one of the first attempts to understand it, Boisot and Meyer (2008) hypothesised that Chinese firms are going abroad pursuing more efficient institutions and as a result developed the concept of Institutional Arbitrage, the “exploitation of the differences between different institutional arrangements operating in different jurisdictions” (p. 356). This hypothesis, still to be proved, needs to be analysed within the framework of the specific characteristics of the Chinese business environment described above. In this context, it is also needed to understand the following:

1. the impact of the diverse development patterns pursued by different regions in the international expansion of Chinese SMFEs,
2. the impact of TVEs’ structure in the international expansion of Chinese small and medium-sized family firms, and
3. the impact of the early 2000s reforms in the learning curve experienced by Chinese SMFEs in their search for international markets.

(ii) Overcoming Institutional Constraints and Market Failures

Institutional voids can also lead to market failures and, as a consequence, firms operating in emerging markets often have to perform some of these functions themselves. For instance, higher transaction costs associated with the low development of the capital and labour markets are a reason behind the high prevalence in emerging markets of unrelated diversified local business groups (Khanna & Palepu, 1997; Khanna & Palepu, 2010). In addition, institutional environments and organisational strategies co-evolve along path-dependent trajectories and as a consequence institutional settings strongly shape the business models and practices (Carney, 1998; Carney & Gedajlovic, 2002).

There are few recent (stress on recent due to the pace of change in China, see Table 1) works presenting cases of Chinese MNEs internalising unrelated activities to minimise the impact of these institutional voids, such as Galanz (Ge & Ding, 2008) or Haier (Palepu, Khanna, & Vargas, 2006), but it is very difficult to find publications on China’s SMFEs pursuing this strategy. The closest that can be found are on JV/OEM (Cardoza & Fornes, 2011a; Child & Rodrigues, 2005), on indirect exports (Sandberg, 2009), on ownership structure (Cardoza & Fornes, 2011b; Fornes & Cardoza, 2010), or on the adaptation of Chinese SMFEs to the environment of different countries (Teik-Cheok, 2012).

In relation to JV/OEM, Child and Rodrigues (2005) argued that this strategy offers an opportunity to build a strong reputation beyond China’s borders, and Cardoza and Fornes (2011a) found that entering into JV/OEMs agreements with international partners has helped Ningxia’s (China) SMFEs to reach markets overseas. On indirect exports, a strategy pursued by many SMFEs as not all can obtain an export licence, Sandberg (2009) found that it is followed by firms in the first stages of their international expansion process (but at the cost of hindering the development of international networks). On ownership structure, Cardoza and Fornes (2011b), found that different stages in the expansion process are supported by different ownership structures: the first national and regional expansions are supported (or “pushed”) by state ownership/funding and the second international expansion by ownership of the family and “pulled” by international financial institutions. On the adaptation to different environments, Teik-Cheok (2012) found that there is no a unique pattern that Chinese SMFEs are following in overseas markets.

These very few works on the strategies pursued by Chinese SMFEs to overcome the market imperfections in China’s business environment highlight the need to deepen the understanding of their expansion process, in particular:
4. the long-term effect of JV/OEMs in the catch-up and sustainability of the international expansion of China’s SMFEs, especially when the first waves of knowledge transferred have been exhausted.

5. the long-term effect of the potential higher liability of foreignness generated by indirect exports (resulting from the difficulties in getting an export licence) and consequent lack of knowledge and direct contact with international markets.

6. the combination of the push from the government and the pull from international partners and family in the ownership structure to reach international markets, especially in comparison with the push-only from the company found in Western firms.

(iii) Guanxi and Links with the Government

Finally, capabilities for relationship-based management in emerging markets, in particular in China, works as a substitute for the lack of institutional infrastructure as firms tend to base their competitive advantage on links with local authorities (Khanna & Palepu, 2010). In this environment, companies can obtain licences and other benefits due to their close links with the local government and, as a consequence, protect their operations from domestic and international competitors (Fornes & Butt Philip, 2011; Hoskisson et al., 2000). In this context, two main areas appear for the case of China: guanxi and links with the government.

On guanxi, several works have been published (for example, (Barney & Zhang, 2009; Buckley et al., 2007; Park & Luo, 2001; Peng & Luo, 2000; Rauch & Trindade, 2002; Tsang, 1998; Yeung & Olds, 2000) analysing its effects on the creation and sustainability of competitive advantages, reduction of transaction costs, management of labour, business opportunities, relations with local authorities, or its similarities/differences with social capital theory. But very few and recent make reference to its effects on SMFEs and specifically on their international expansion process; for instance, Sandberg (2009) found that some small firms in the sample use their guanxi to get new and direct business relations, and Ge and Ding (2008) reported that Galanz (a former TVE) has supported its business strategy on maintaining good relationships with the local government.

Similarly, the links between companies and the Chinese government is an area that has attracted research interest (Buckley et al., 2007; Cai, 1999; Chen, 2006; Child & Rodrigues, 2005; Rugman & Li, 2007; Rui & Yip, 2008; Spar & Oi, 2006) where most works have analysed market imperfections (like SOEs, subsidies, efficiency of internal markets, etc), promotion of exports, supply of raw materials, acquisition of technologies and skills, etc. But again, very few have studied the impact of these links with the government on SMFEs and in particular, on their international expansion. In that sense, Cardoza and Fornes (2011a) found that state funding seems to be instrumental during the first stages (local and regional) of Ningxia’s SMFEs’ expansion.

This gap in the research of two key elements of the Chinese business environment, guanxi and links with the government, and their relations with the international expansion of SMFEs, makes evident the need to extend knowledge in at least the following areas:

7. the effect of guanxi in the potential reduction of the liability of foreignness experienced by Chinese SMFEs in their search for customers in international markets,

8. the effect of guanxi in the potential reduction of the psychic distance and/or information asymmetry between Chinese SMFES and the target markets in their international expansion process, and

9. the role of the links with the government (in the form of funding at subsidised interest rates, procurement, granting of export licenses, access to distribution channels, etc) in the internationalisation process of Chinese SMFEs.
b- The need to understand different elements of the process to develop a strong firm-level body of literature on the international expansion of China’s small and medium-sized firms

This section is divided into two parts: (i) a review of different firm-level studies on Chinese SMFEs and (ii) an analysis of the design of the organisations and of the barriers hindering the international expansion of Chinese SMFEs.

(i) Firm-level Studies on SMFEs

Buckley et al. (2007), in one of the first works modelling Chinese ODI, concluded that “for the present, Chinese outward investors clearly present marked contrasts from the conventional model in key aspects” as these investments have “both a conventional and an idiosyncratic dimension” (pp. 513-514). In this context, most firm-level studies on the internationalisation of Chinese MNCs have concentrated on seven main areas: firm size, firm types and ownership, resources and capabilities, network ties⁹, export intensity, international experience, and managerial influence (Deng, 2011). Works on these areas cover a wide range of topics, like the relationship among size, resources, and internationalisation, the impact of state ownership and its political mandates in international expansion, the role of networks and their effect on the search for international markets, the importance of accumulating international experience in companies’ expansion, etc. (Deng, 2011). However, very few have attempted to combine all the elements and propose a comprehensive theoretical framework for Chinese MNEs and even less for SMFEs (Alon et al., 2011; Barney & Zhang, 2009).

One of the few studies is Rui and Yip (2008) who said that Chinese ODI may have a Strategic Intent to achieve specific goals “to offset their competitive weaknesses and leveraging their unit ownership advantages, while making use of institutional incentives and minimizing institutional constraints” (p. 214). In line with this, Mathews (2006)⁰ proposed Linkage–Leverage–Learning (LLL), an extension of the OLI paradigm (Dunning, 1977), based on the idea that the “internationalization from the Asia Pacific region needs to be reconceived as a ‘pull’ process as well as involving a push”, and that the internationalisation of these firms is based on a search for new resources to strengthen their competitive position rather than on “the possession of overwhelming domestic assets which can be exploited abroad” (Mathews, 2006, Pp. 16-17).

Mathews (2006) based the LLL framework on the idea that traditional theories (in particular, internationalisation, strategic impulse to internationalisation, and sources of international advantage) do not necessarily apply as Asia Pacific companies have distinctive characteristics compared to the incumbents, namely: (i) accelerated internationalisation, (ii) organisational innovation, and (iii) strategic innovation. And in this context “the considerations that apply to international expansion in the pursuit of resources (and customers) not otherwise available, are quite different from those that apply to expansion which is designed to exploit existing resources” (p. 18).

The relatively high number of citations received by this work seems to indicate that scholars have found this approach more suitable for the study of the internationalisation of Chinese firms. In fact, different works in Deng’s (2011) list of 121 papers have attempted to test this framework in MNCs (Bonaglia, Goldstein, & Mathews, 2007; Ge & Ding, 2008; Li, 2007) as one of LLL’s strengths lies in the fact that it incorporates the reality of Asian companies and their environments while at the same time keeping most of the pillars present in mainstream IB theories. There is only one work attempting to test this approach on Chinese SMFEs (Cardoza & Fornes, 2011a).

On top of this, Deng (2011) has found that scholars are increasingly using the resource-based view (RBV) (Barney, 1991; Penrose, 1959) for the analysis of the international expansion of
Chinese MNCs (examples of these works are (Cui & Jiang, 2009; Deng, 2007, 2009; Rui & Yip, 2008). But its use in the analysis of small firms is still scarce; Yamakawa et al. (2008) is one of them.

Based on the developments presented above, it is evident that gaps exist in the academic literature on the expansion of Chinese SMFEs, in particular in the following areas:

10. following Barney and Zhang’s proposition for MNEs (2009), whether a theory of Chinese management for SMFEs or a Chinese theory of SME management is suitable to understand this phenomenon,

11. the sources/drivers/engines of internal capabilities/competitive advantages that lead Chinese SMFEs to expand internationally, and

12. the applicability of the RBV in China’s context to explain the international expansion of Chinese SMFEs.

(ii) Organisational Design and Barriers Hindering the International Expansion of Chinese SMFEs

On the other hand, it is necessary to know the barriers Chinese SMFEs are facing in their search for international markets. Many works have studied this in different emerging economies, like Turkey, the Azores, Fiji, Samoa, Indonesia, Brazil, Nigeria, Malaysia, Peru, Vietnam, Thailand, India, Jordan, China or Panama, using Leonidou’s (2004) recollection of barriers hindering the international expansion of small firms in the EU and the US. Two main types of barriers are identified in this work: (i) internal barriers, those “associated with organizational resources/capabilities and company approach to export business” and which can be broken down into Informational, Functional, and Marketing; and (ii) external barriers, those “stemming from the home and host environment within which the firm operates” and which can be classified as Procedural, Governmental, Task, and Environmental (Leonidou, 2004, p. 281).

There is one study on Chinese SMFEs (from China’s Ningxia Autonomous Region, (Cardoza & Fornes, 2011a)) following Leonidou’s work. The findings of this work are somewhat different from what was found in most studies on Western SMFEs. First, SMFEs from Ningxia face fewer barriers (31.5% of the total assuming an equal weighting) to their expansion than their Western counterparts. Second, Ningxia’s SMFEs do not perceive finance as a barrier to their expansion, a barrier mentioned widely in the literature on Western SMFEs. Third, the results suggest that Chinese SMFEs face different barriers to cross the regional and national boundaries during their process of business expansion. Fourth, the barriers found to be hindering the expansion of SMFEs are related mainly to weak management skills and knowledge regardless of the difference between internal and external.

These results from Ningxia are more useful when analysed in interaction with the elements and theories presented throughout this paper. For example, finance not seen as a barrier can be related to the links with the government and/or with Institutional Arbitrage (Boisot & Meyer, 2008), or different barriers affecting different stages of expansion and weak management skills and knowledge can be related to Learning (one of the Ls in Mathews’ (2006) LLL). This Learning can also be seen in the work of Carney (1998) and Carney and Gedajlovic (2003) who found that SMFEs respond to competitive pressures both in domestic and overseas markets by upgrading management competencies, doing innovation, and entering in higher valued added product market segments while Zhang and Ma (2009) argued that family business owners may opt for lower business growth strategies to keep control and improve the learning capability of family members.
To further the understanding of this phenomenon it would be interesting to research the following using larger samples and covering a wider geographical area:

13. the set of barriers faced by Chinese SMFEs, and also their impact (if any) on China’s firms in comparison with Western small family companies,

14. the reasons why finance is not perceived as a barrier for the international expansion of SMFEs (whether market imperfections, links with the government, funding by the family, international partners/sources, institutional arbitrage, above average returns, higher capital productivity, etc),

15. the learning process experienced by SMFEs in their search for markets overseas (and eventually its potential relation with Mathew’s (2006) LLL).

**SUMMARY AND CONCLUSIONS**

This paper presented a critical review of the literature on Chinese SMFEs vis-à-vis research on MNEs and the business environment encountered in China. The analysis showed that two main areas are in need of further research: the impact of the Chinese business environment on the international expansion of SMFEs, and the need to understand different elements of the process to develop a strong firm-level body of literature. Each of these areas concluded with a set of areas for future research, fifteen in total, to continue the understanding of the process that takes Chinese SMFEs abroad.

The review of the literature also showed that the great majority of the studies on the internationalisation of Chinese firms are related to MNEs. In addition, the great majority of works on SMFEs tend to be static, using case studies, and analysing qualitative data. Comparative studies and other methods based on quantitative information are needed to continue the understanding of this phenomenon. In addition, the need for longitudinal studies is evident in the many questions faced by the different research works on China’s firms and in particular on SMFEs. Unfortunately, the data needed for this kind of study is not easily available for the period before 2000 and also some sources are not completely reliable.

Finally, with very few papers on Chinese SMFEs published in the most important English-language journals, it is clear that there is a need to continue the understanding of their international expansion. This will contribute to the existing academic literature by identifying trends towards globalisation (Buckley, 2002) and also by understanding the factors affecting the success and failure of SMFEs in international markets (Peng, 2004).
TABLE 1: RESEARCH ON THE INTERNATIONALIZATION OF CHINESE SMFEs. NUMBER OF JOURNAL ARTICLES

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## TABLE 2: DEFINITION OF SMALL AND MEDIUM-SIZED ENTERPRISES

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<th>Industry</th>
<th>Employees</th>
<th>Sales</th>
<th>Total Assets</th>
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<tr>
<td>Construction</td>
<td>3,000</td>
<td>3,000</td>
<td>4,000</td>
</tr>
<tr>
<td>Wholesale</td>
<td>200</td>
<td>3,000</td>
<td></td>
</tr>
<tr>
<td>Retail</td>
<td>500</td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td>Transportation</td>
<td>3,000</td>
<td>3,000</td>
<td></td>
</tr>
<tr>
<td>Postal Service</td>
<td>1,000</td>
<td>3,000</td>
<td></td>
</tr>
<tr>
<td>Accommodation &amp; Restaurant</td>
<td>800</td>
<td>3,000</td>
<td></td>
</tr>
</tbody>
</table>

Source: (National Bureau of Statistics of China, 2009)
FIGURE 1: ORGANISING FRAMEWORK FROM CONTENT ANALYSIS OF LITERATURE

Note: the solid arrows and matrices indicate elements, topics, and relations that previous works have studied. The dashed arrows and matrices represent under investigated areas and relations. The dashed horizontal lines show the connections (although not exact) of the proposed areas for further research (each identified with its proposition number).
REFERENCES


**NOTES**

1. Five papers overlap the two studies: (Cardoza & Fornes, 2011a; Gebre-Egziabher, 2007; Liu et al., 2008; Yamakawa et al., 2008; Zhou et al., 2007)

2. One of the most cited works on the internationalisation of Chinese firms, with more than 300 citations as at December 2012 (Google Scholar, 2012a).
Over time, the TVEs grew fiercely competitive with each other, and, eventually, with the SOEs. They also became extremely successful, reinvesting their profits to fund growth” (Spar & Oi, 2006, p. 7). These enterprises have also helped in the transfer of labour from rural areas to non-agricultural sectors and especially became vehicles for the government (local and national) to achieve objectives in their reform and development strategies (Chen, 2006).

A good example of these differences is the contrast between the villages of Huaxi (Jiangsu province) and Nanjie (Henan province) and their township and village enterprises. Huaxi is China’s richest village where every family has had a net worth of more than RMB1 million since 2005 as many of the former village farmers are large shareholders of the village enterprise, Jiangsu Huaxicun Co Ltd, listed since 1999 on the Shenzhen Stock Exchange with a current market capitalization of more US$1.1bn. On the other hand, in Nanjie communism is alive and well and the “works of Chairman Mao are still revered. The village and its enterprise run on a long-forgotten salary plus supply or need system (instead of a cash bonus), where basic resources such as food, property, schools and healthcare are first allocated on a needs basis” (Markus, 2002; Zhiming, 2010, p. 15)

Boisot and Meyer (2008) also added that given the relatively high transaction costs “they face as small firms in China, expanding in the domestic market could actually prove to be riskier for them than moving abroad” (p. 358)

Li and Matlay (2006) in their review also argued the need to understand (i) the role of local governments in promoting entrepreneurship in TVEs; (ii) how private firms adapt to different institutional environments; and (iii) the influence of culture on entrepreneurial activities some years ago.

One of the first empirical studies on the international expansion of Chinese SMFEs with a sample of more than 500 SMEs in four provinces.

“Interpersonal relationships and connections sustained in the historical context of family- and community-based relationships” (Bhagat et al., 2010, p. 185).

Kao (1993) called these networks The Chinese Commonwealth which refers to a network of relationships with growing transnational investments in different sectors.

Also one of the most cited works on the internationalisation of Chinese companies with more than 320 citations as at December 2012 (Google Scholar, 2012c).

This paper has received more than 175 citations as at December 2012 (Google Scholar, 2012b).

Lee (1996) found that SMFEs doing business overseas face challenges when integrating Western management styles since Chinese management is more human and family-centred and also characterised by centralisation of power.