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China goes global: public policies' influence on Small and Medium-size Enterprises' international expansion

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Abstract

Despite Small and Medium-size Enterprises' (SMEs) significant contribution to China's social and economic development very little has been written about the influence that public policies (i.e. public funding priorities and regulatory measures) may have on the first stage of international expansion of Chinese SMEs. To help to fill this gap, this article analyses five main factors related to public policies and services affecting Chinese SMEs' internationalization: access to public financial resources; participation of the government in ownership; access to public procurement contracts; adverse regulatory and inconsistent legal frameworks, and public assistance on information and knowledge about markets. The main conclusion is that SMEs appear to base their international expansion on private capabilities, rather than on support from the government; in addition, the perceived barriers for the international expansion of these firms may be mainly internal, rather than institutional.

Keywords: China, emerging markets, government intervention, international expansion, SMEs, public policy,

Introduction

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 in China, 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 (Hoskisson *et al.* 2000, Yeung 2002, Wright *et al.* 2005, Buckley *et al.* 2007, Peng *et al.* 2008, Cunningham 2011, Fornes and Butt Philip 2012, Williamson *et al.* 2013).

In contrast, despite Small and Medium-size Enterprises' (SMEs) significant contribution to China's social and economic development¹, scarce attention has been devoted to understanding the international expansion strategies and obstacles influencing their development. The subject remains relatively under-explored in the international business literature and as such demands more attention (Deng 2011, Cardoza and Fornes 2013).

A review of the literature reveals that studies on the performance of Chinese business expansion tend to focus exclusively on internal factors of the firm (management, finance, technology etc.) and market-related determinants (Deng 2011), yet there is poor understanding on the effects of formal institutions, such as government policies, assistance programmes and regulations, on the domestic and overseas expansion of SMEs (Zhu *et al.* 2011). This lacuna is relevant in China where, in spite of the market-oriented reforms, the institutional framework is constantly changing, economic activities are still under control by the state, and firms' strategic options are conditioned by the government policies and regulatory frameworks in which they operate (Hoskisson *et al.* 2000, Peng 2002, Wright *et al.* 2005, Buckley *et al.* 2007, Zhu *et al.* 2011).

¹ 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).

In particular, domestic institutions such as weak legal and regulatory frameworks, ownership patterns, public funding access, or government participation in firms have an important effect on firms' decision making processes and therefore affect the output of expansion initiatives (Buckley *et al.* 2007, Boisot and Meyer 2008, Yang *et al.* 2009).

However, with a few exceptions (Yamakawa *et al.* 2008, Cardoza and Fornes 2011, Zhu *et al.* 2011, Fornes *et al.* 2012), the institutional environment's influence on SMEs' international expansion has received little attention from researchers and it remains a relatively underexplored topic, particularly in emerging and transition economies. The present study aims to help fill this gap. The premise is that, similar to Chinese multinational corporations (MNCs) and state-owned enterprises (SOEs), SMEs in China benefiting from favourable government policies and assistance programmes are more likely to expand internationally. To this end, the study uses a systematically collected firm-level dataset and adopts a policy perspective to study the interaction between government policy and the drivers of SMEs' expansion.

A thorough understanding of how public policies affect Chinese SMEs' international expansion is needed to extend the international business literature. In this context, this article contributes to the body of literature in several ways: (i) by studying the link between public financing, state ownership, public procurement, regulatory frameworks, assistance programmes and international expansion, (ii) by broadening the internationalization framework of Chinese SMEs proposed by Boisot & Meyer (2008) and providing the possibility of empirically testing their hypotheses on early internationalization, and (iii) by providing a unique setting to test the set of barriers presented by Leonidou (2004) on SMEs' internationalization in Western countries. 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 article proceeds as follows. The first part provides a general overview of the main scholarly contributions to firms' international expansion in transition economies. The following one presents a review of studies on the international expansion of Chinese firms and then presents the development of hypotheses. Then, the last part presents the methodology, followed by a section showing the results of the data analysis. The article finishes with discussion, implications, limitations, future research and concluding remarks sections.

Review of the literature

Peng (2002) argues that for Asian organizations it is necessary to adopt an institution-based view in addition to mainstream theories – mainly competition based on industry conditions (Porter 1980) and firms' resource and capabilities perspective (Barney 1991) – 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 step is particularly relevant since in the first phase of transition, i.e. when markets are still in formation, institutional theory presents a more relevant theoretical framework to understand the behaviour of firms (Hoskisson *et al.* 2000, p. 253). Several factors affect this institutional environment²; among them cultural diversity (Hofstede 1981, Kogut and Singh 1988), unfamiliarity with business conditions (or liability of foreignness) (Johanson and Vahlne 1977, Zaheer 1995, Petersen and Pedersen 2002), and public policies, legal institutions, and regulatory structures (Davis and North 1971, Peng and Heath 1996, Yeung 2002, Peng *et al.* 2008).

² Institutional environment defined as “the set of fundamental political, social and legal ground rules that establishes the basis for production, exchange and distribution” following Davis and North (1971, p. 6).

Using this framework, Peng and Heath (1996) analysed how different public policies and institutional environments determine the growth strategy of state-owned enterprises in centrally planned economies in transition. Similarly, Zhu *et al.* (2011) identified several institution-based barriers to innovation and business growth in China; in particular these authors emphasized the barriers related to access to financing, the laws and regulations, and the support systems, besides competition fairness and tax burdens. Also, Child and Lu (1996) found that firms from emerging and transition markets face different institutional constraints related to intervention by authorities and regulatory bodies in the decision making process, restrictions 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) and low levels of legitimacy (Yamakawa *et al.* 2008) were observed to affect companies' strategies and performance.

In China, the need to include the institution-based approach is evident in the role played by the government in the international expansion of many of its companies. Chinese SOEs and MNCs have been receiving preferential support mainly through broad access to financial resources, government involvement usually through ownership, market monopoly, government procurement contracts, assistance to form partnerships and joint ventures, and access to state-supported scientific and technical knowledge (Child and Rodrigues 2005). This, among other evidence, has led Williamson *et al.* (2013) to add government-specific advantages (GSAs) to Rugman's (2005) CSA-FSA framework to capture the quality of government-created assets, governance, and policies that influence the development of companies' capabilities which ultimately may lead to international expansion.

Access to public financial support: a trigger for SMEs' international expansion?

The 'Go Global' policy launched in 1999 was mainly oriented to promote the internationalization of large enterprises (MNCs and/or SOEs) mainly through outward FDI

based on low interest loans to purchase foreign companies (Buckley *et al.* 2007, Ding *et al.* 2009). This access to financial resources has been visible in the case studies analysed by Rui and Yip (2007) and Rugman and Li (2007). Shoham and Rosenboim (2009) found that the Chinese government is supporting resource-seeking ODI in Africa as well. Zeng and Williamson (2003) also reported that some large companies have access to state-supported research. Buckley *et al.* (2007) added that the government supports some SOEs by having capital available at below-market rates and in subsidised or soft loans from banks influenced or owned by the government. This policy has arguably been one of the main drivers for the international expansion of Chinese MNCs and/or SOEs (Contractor 2013, Williamson *et al.* 2013) in the last few years.

Similarly, for SMEs the Chinese government passed the SME Promotion Law in 2002 comprising public support and encouraging financial institutions to improve the financing of small and mid-size firms. The evidence on the efficiency of this policy is mixed. On the one hand, this policy may be responsible for developing an important group of SMEs that have successfully expanded internationally and represent around 70 percent of China's exports (The Economist 2009) which means around 10 percent of the world's exports (WTO 2012). On the other hand, there seems to be an asymmetry between the contribution of SMEs to economic growth and the amount of credit they get (from banks and other financial institutions) as many SMEs seem to be experiencing difficulties in getting access to financial resources (Shen *et al.* 2009)³.

This apparent contradiction raises a question about the effectiveness of public policies in the development of SMEs in China. George and Prabhu (2000) showed the link between government-oriented developmental financial institutions and the value creation and

³ Many SMEs have no access to formal financing, face credit constraints, have to rely on self-financing (Shen *et al.* 2009, Zhu *et al.* 2011), and are subject to local government controls (Huang and Di 2007).

entrepreneurship in emerging economies. But from the evidence presented above it is still not clear how the government's policies contribute to the international expansion of the country's SMEs. This lack of clarity may be the consequence of a weak institutional environment where the implementation of public policies is poor (Lin 2005) which in turn makes small and medium-sized firms suffer from a lack of concrete regulations and/or clear policies at the operational level (Zhu and Sanderson 2009). Building on these insights and considering the evidence from Chinese MNCs/SOEs, this article conducts empirical research to verify, amongst others, the following hypothesis:

H1: Chinese SMEs with financial support from the government are more likely to expand internationally.

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 (e.g. economic importance, industrial sector, size, and so on) have an effect on enterprises' competitiveness and behaviours. This situation may explain why to overcome institutional failures and avoid ideological discrimination against private ownership, companies tend to establish close ties with local or central governments (Li *et al.* 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, have been used mostly to promote the expansion of selected state-owned enterprises (Nolan 2002, China Daily 2012). Even though these arguments seem plausible, there is a need to validate them empirically in the context of the influence of public policies; to this end the following further hypotheses are formulated:

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.

Regulatory framework, government assistance, and their influence on SMEs' international expansion

Alongside the process of modernising the country's infrastructures, improving education, developing special economic zones, and promoting industrial policies led by the Chinese government (Williamson *et al.* 2013), China has experienced an evolution towards a more entrepreneurial institutional policy framework (Chen 2006). Nevertheless, still the all-encompassing controls of local governments generate institutional dependence and increase transaction costs (Child and Rodrigues 2005, Boisot and Meyer 2008). This has resulted in Chinese SMEs facing multiple competitive disadvantages like limited information and knowledge about overseas markets, lack of suitable policy and regulatory frameworks, weak legal frameworks and protection systems for intellectual property rights, as well as over-regulated environments in their domestic markets (Boisot and Meyer 2008). For example, Zhu *et al.* (2011) found that Chinese SMEs find regulatory obstacles for the establishment, approval, and registration of companies very intricate, time-consuming, and expensive. In addition, compared with SOEs, private new ventures suffer regulatory discrimination that prevents them having access to key resources for their domestic and international expansion (Yuan and Vinig 2007).

This institutional environment with diversity and inconsistency in the enforcement of law, regulatory systems, and government policies (across different Chinese regions and industries) create different levels of legal protection. As a consequence, many Chinese SMEs find that public assistance programmes and services are inefficient and not always suited to their needs (Liu 2007). In particular, these asymmetries have been found to have an inhibitor effect in the growth of SMEs in China (Kanamori *et al.* 2007); also the lack of information and knowledge

about markets and consumers constitutes an obstacle in the process of SMEs' expansion (Cardoza and Fornes 2011). These market and state failures have led firms to rely on interpersonal relationships (*guanxi*) to overcome them and build trust (Bhagat *et al.* 2010, Cai *et al.* 2010).

Several authors have conjectured about possible impacts of these poor regulatory frameworks and public assistance programmes. For example, Boisot and Meyer (2008) hypothesized that Chinese SMEs go abroad to overcome the challenges posed by this home institutional environment and mitigate the risks associated with domestic market imperfections. In other words, given inefficient public assistance, unsuited services, institutional bias that favours MNCs/SOEs, domestic regulatory discrimination, scarcity of resources, etc., many SMEs may decide to start their international expansion earlier. In doing so, these firms escape from their home market and as a consequence from the misalignment between firm needs and home country institutional environment (Child and Rodrigues 2005, Mathews 2006, Boisot and Meyer 2008, Yamakawa *et al.* 2008). Building on these insights, this article conducts empirical research to verify the following hypothesis:

H4: Chinese SMEs perceiving poor regulatory 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 less likely to expand their business activities internationally.

Summing up, the proposed framework presented in Figure 1 illustrates the relationships between public policies and SMEs' international expansion. The first group of hypotheses analyses the influence of public funds on Chinese SMEs' international expansion; this group is then divided into three main areas: direct public financing, participation in the ownership

structure, and/or engagement in public procurement. This group of hypotheses suggests that support from the government in any of the three forms mentioned above influences positively the international expansion of SMEs. The second group of hypotheses argues that the quality of the institutional environment influences the perception of SMEs' managers about domestic institutional risks and, consequently, has direct and indirect effects on firms' expansion. The first hypothesis in this group proposes that firms operating in a poor regulatory framework are more likely to expand internationally; the second hypothesis proposes that poor assistance programmes are more likely to hinder international expansion. These relationships are conceptualized and different hypotheses are formulated for empirical testing.

[Insert Figure 1 around here]

Methodology

The sample was developed through a two-stage process. The first stage involved the selection of a Theoretical Sampling (Eisenhardt 1989, Pettigrew 1990, Eisenhardt and Graebner 2007) 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 more developed regions which account for 54 percent of national GDP, 60 percent of bank assets/loans, 70 percent of mortgages, 86 percent of imports and 89 percent of exports; the region is home to 65 percent of the nation's securities companies, 82 percent of insurers, and 95 percent of investment funds. On the other hand, Anhui and Ningxia were included in the sample to represent the less developed regions, mainly 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 percent of coal, 60 percent of natural gas and 40 percent 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 and Wilkinson 1985) and, as a consequence, a similar contextual view of the challenges faced by their firms was obtained. The whole process (two stages) started in 2009 and was completed in 2012.

Table 1 presents selected answers from the survey. In this table, it is possible to see that around 21 percent of the SMEs in the sample are completely owned by the state. The companies in the sample operate mainly in manufacturing (34 percent), wholesale (12 percent), and retail (7 percent). Most were founded between four and ten years ago, and the great majority of their managers are men (77 percent) 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, a measure of expansion performance (Bonaccorsi 1992, Calof 1994)) as a dependent variable and the answers from the survey as independent variables. The definition of international expansion 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 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 (2011) 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 are run for three groups: (i) for the whole sample (coded as WS), (ii) for the more developed (coded as MD), and (iii) for the less developed regions (coded as LD). 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]

Public financing (H1)

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

where $WS_i; MD_i; LD_i$ is the export intensity of company i analyzed in three groups (for the whole sample, for the more developed, and for the less developed regions), $Exports/GDP$ of the province of origin (Ningxia 4.8 percent, Anhui 7.1 percent, Jiangsu 40.3 percent, Shandong 17.5 percent (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 ownership (H2)

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

where $WS_i; MD_i; LD_i$ is the export intensity of company i analyzed in three groups (for the whole sample, for the more developed, and for the less developed 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)

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

where $WS_i; MD_i; LD_i$ is the export intensity of company i analyzed in three groups (for the whole sample, for the more developed, and for the less developed 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.

Perceived quality of regulatory frameworks (H4)

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

where $WS_i; MD_i; LD_i$ is the export intensity of company i analyzed in three groups (for the whole sample, for the more developed, and for the less developed 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.

Perceived poor public assistance programmes (H5)

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

where $WS_i; MD_i; LD_i$ is the export intensity of company i analyzed in three groups (for the whole sample, for the more developed, and for the less developed 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 for differences in the two sub-samples (MD and LD). An Independent Samples t-test was carried out to see if the difference between the two means was statistically significant different from zero at the 5 percent level of significance. The second check was for 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 *et al.* 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)⁴ to test if error terms depended on factors included in the analysis. Finally, autocorrelation was checked by calculating the Durbin-Watson coefficient and

^[4] 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.

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 MD and LD ($p > 0.01$ 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 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 multicollinearity⁵. 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]

⁵ Except in some variables of Equation 3 although it was deemed not necessary to make changes to the *Public Procurement Contracts model* (H3) due to the relatively 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).

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 , LD_i , and MD_i . The analysis of the table follows.

[Insert Table 7 around here]

Public financing (H1) model: the first row presents the results of running Equation 1 for the three samples WS_i , LD_i , and MD_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 Less Developed Regions ($|\beta_m/S_b| > t_{n-6; 0.95}$). Finally, Panel C shows that *Finance*, *State Support*, and *Private* are statistically significant ($|\beta_m/S_b| > t_{n-6; 0.95}$) for the More Developed Regions. 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 , LD_i , and MD_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 , LD_i , and MD_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. Panels B and C show that no variable is statistically significant for both the Less and More Developed Regions ($|\beta_m/S_b| > t_{n-6; 0.95}$). This rejects *H3* as no public procurement contract was found to be statistically significant.

Perceived quality of regulatory frameworks (H4) model: the fourth row presents the results of running Equation 4 for the three samples WS_i , LD_i , and MD_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 Less Developed

Regions ($|\beta_m/S_b| > t_{n-6; 0.95}$). Finally, Panel C shows that *Exchange Rate*, *Paperwork*, and *Payment* are statistically significant ($|\beta_m/S_b| > t_{n-6; 0.95}$) for the More Developed Regions. This accepts *H4* for the three samples.

Perceived poor public assistance programmes (H5) model: the fifth row presents the results of running Equation 5 for the three samples WS_i , LD_i , and MD_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 Less Developed Regions ($|\beta_m/S_b| > t_{n-6; 0.95}$). Finally, Panel C shows that *Contacts*, *Assistance*, and *Familiarity* are statistically significant ($|\beta_m/S_b| > t_{n-6; 0.95}$) for the More Developed Regions. This rejects *H5* for the three samples. A summary of the results can be seen in Table 8.

[Insert Table 8 around here]

Discussion

The findings from the first stage, no major differences in the results from the two sub-samples LD and MD, were unexpected due to China's highly fragmented domestic market (Boisot and Meyer 2008, Fornes *et al.* 2012), different patterns of development among regions (Zhiming 2010), and different levels of economic development and growth (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 LD regions 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.

On the other hand, the findings from the second stage suggest that the policy of 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 (Child and Rodrigues 2005, Buckley *et al.* 2007, Deng 2011). Similar results have been reported in recent years using smaller samples and case studies (Ge and Ding 2008, Cardoza and Fornes 2011, Fornes *et al.* 2012). 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 and Yin 2009, Fornes and Butt Philip 2012, Williamson *et al.* 2013) where the support of the government has not been a key element in their internationalisation process.

In addition, the fact that Chinese SMEs have been able to expand their operations internationally even when perceiving poor regulatory frameworks and weak support systems from the government (H4 and H5), 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 institutional environment 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 institutional environment where they operate.

In other words, the findings from this study show that SMEs in the sample are basing their international expansion on “private” capabilities (including transfers from external private sources) rather than on public policies (the case for many MNCs). This is in line with the findings of Williamson *et al.* (2013) and Ramamurti (2012), Chinese SMEs in the sample seem to be in possession of the capabilities needed to expand internationally although not necessarily the same as those found in developed economies-based firms (Ramamurti 2012, Williamson *et al.* 2013). In addition, the perceived barriers for the international expansion of these firms are, in their current stage of development, mainly internal rather than institutional; i.e. no institution-based barrier seems to prevent Chinese SMEs to expand internationally. Also, there are no main differences in the regions of China where companies are based in terms of public policies or institutions. A further analysis of the findings and their implications follows.

Implications

The findings in H1, H2, and H3 have implications for practice and theory as they question the role of the government and its impact in the mid- to long term. For practice they have consequences in the development of policies and strategies for the international expansion of Chinese companies. For theory they enrich the debate on the impact of institutions, and in particular of public policies, on the international expansion of Chinese firms (Boisot and Meyer 2008, Peng *et al.* 2008, Yamakawa *et al.* 2008, Alon *et al.* 2011, Deng 2011, Zhu *et al.* 2011).

The findings in H4 and H5 also have implications for theory and practice. They indicate 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. These findings question the Institutional Arbitrage proposed by Boisot and Meyer (2008) and as a consequence show where SMEs can invest to strengthen their internal operations, rather than proposing investments abroad to deal with their weaknesses.

The findings from H1 have implications for practice. They show that SMEs (especially from MD) do not have the necessary funding to expand their operations internationally and that private sources of funding are necessary in addition to the support from the government (similar to what was found in Ningxia (Cardoza and Fornes 2011) and in Anhui (Fornes *et al.* 2012)). This support from private sources usually brings a transfer of the knowledge and skills needed to operate in international markets (linkage in Mathew's (2006) LLL framework). These findings also have implications for theory, they provide 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 on implications for practice, the fact that state ownership (H2) does not play a relevant role in promoting the firms' expansion show that companies' strategic position "could be weakened by the way they remain beholden to administrative approval and a legacy of institutional dependence" (Child and Rodrigues 2005) and that "Chinese entrepreneurs are bounded by unfavourable institutional arrangements" (Liu *et al.* 2008, p. 505). In addition, 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.

Another implication for practice can be found in H3. The findings 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 relationship 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.

The findings of this study have also implications for theory as they deepen the understanding of the role of institutions in the development of internationally competitive small and mid-sized business by providing 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 (Child and Rodrigues 2005, Mathews 2006, Boisot and Meyer 2008, Barney and Zhang 2009, Warner and Rowley 2010, Alon *et al.* 2011, Deng 2011, Warner 2014).

Future research directions

Based on the overarching conceptual framework of this article, one of the main areas to broaden and deepen the understanding of China's companies would be continuing the study of the impact of institutions on the international development of Chinese firms and especially SMEs; this is because the complex web of institutions that permeates the developed economies is either different, absent, or poorly developed in China (Makino *et al.* 2002, Buckley *et al.* 2007, Fornes and Butt Philip 2011). This becomes apparent in three main areas: (i) information problems: comprehensive, reliable, and objective information to make decisions is not widely available (Boisot and Meyer 2008, Cardoza and Fornes 2011); (ii) misguided regulations: political goals may take priority over economic efficiency, reducing thus the chances to take full advantage of business opportunities (Child and Rodrigues 2005, Buckley *et al.* 2007); 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 and Butt Philip 2012). In this context, a relevant question may be: how will the environment for business in China impact/affect/shape the next stages in the international growth of SMEs? Finding an answer to this question appears as a necessity as it may be expected that in the few

next years SMEs will follow the pattern seen in many MNCs, i.e. going from export to FDI (Dunning 2003).

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 Guangdong 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.

Concluding remarks

How do managers and owners of small and medium-sized enterprises (SMEs) perceive barriers in their international expansion strategic decisions? Do public policies like access to funding in the form of direct financial contributions, participation in the firms' ownership structure, or public procurement contracts trigger the international expansion of Chinese SMEs? Do poor regulatory frameworks and/or assistance programmes pose difficulties for SMEs' international expansion? 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 points to having the government as a customer not proving 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. Also, the article suggests that there are no main differences in the regions of China where companies are based in terms of public policies or institutions. These key 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.

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Figure 1: Public policies and institutional determinants of Chinese SMEs' international expansion: a framework

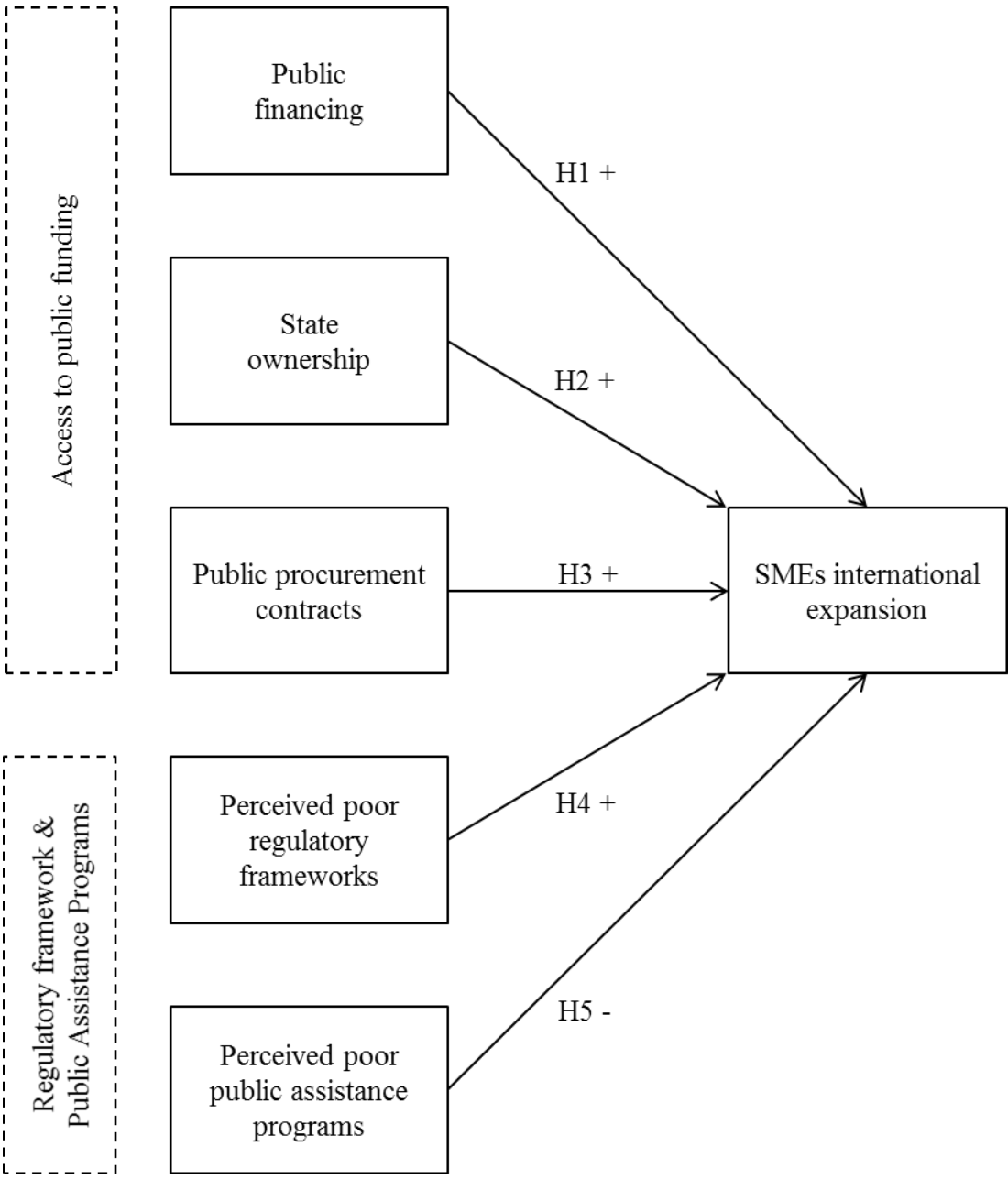


Table 1: Selected answers from the survey (N=582)

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 – sales and total assets in thousands of RMB (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,
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.		

*: Interviewees could choose among the following options: (i) definitively yes, probably yes, neutral (affirmation), probably no, definitively no, or (ii) total agreement, agreement, neutral (affirmation), disagreement, complete disagreement (depending on the question) to complete the survey.

** : Interviewees were asked to provide the % for each of the options given in all the questions.

Table 4: Results of the independent samples t-test

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

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: LD		Panel C: MD	
	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	

*: Significant at 0.05 level

Table 8: Summary of the results ($|\beta_m/S_b| > t_{n-3}; 0.95$).

	Whole Sample (WS)	Less developed regions (LD)	More developed regions (MD)
H1	<i>Finance</i> <i>Personal</i> <i>State support</i>	<i>None</i>	<i>Finance</i> <i>State support</i> <i>Private</i>
H2	<i>None</i>	<i>None</i>	<i>None</i>
H3	<i>Retail</i>	<i>None</i>	<i>None</i>
H4	<i>Exchange Rate</i> <i>Paperwork</i>	<i>Exchange Rate</i>	<i>Exchange Rate</i> <i>Paperwork</i> <i>Payment</i>
H5	<i>Contacts</i> <i>Info Sources</i> <i>Familiarity</i>	<i>Assistance</i>	<i>Contacts</i> <i>Assistance</i> <i>Familiarity</i>

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