

**THE INTERNATIONAL EXPANSION OF CHINA'S SMALL  
AND MEDIUM-SIZED ENTERPRISES: A REVIEW**

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# **THE INTERNATIONAL EXPANSION OF CHINA'S SMALL AND MEDIUM-SIZED ENTERPRISES: A REVIEW**

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## **ABSTRACT**

The paper critically analyses the relevant literature on the international expansion of China's small and medium-sized enterprises with the aim of highlighting the main topics analysed by scholars and identifying areas for future research. The paper follows up on Deng's (2011) findings and reviews the works on the international growth of SMEs vis-à-vis what has been published on Chinese MNEs and Western SMEs. It does this by, first, analysing the specific characteristics of small business from China along with the particularities of the Chinese business environment and, second, by studying the literature at both firm and industry levels. The paper then highlights the need to deepen the understanding of the process leading to the SME's expansion beyond China's borders and concludes with the identification of gaps for future research.

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

## INTRODUCTION

Since China started to become more integrated in the world economy after Deng Xiaoping's Open Door policy and especially after China's WTO accession in 2001, the expansion of Chinese firms has increasingly attracted attention from researchers around the world. In this context, Deng (2011) found that between 1991 and 2010 a total of 121 journal articles on the internationalisation of companies from China have been published in major peer-reviewed English-language journals. A close analysis of these 121 papers shows that they cover a wide range of research areas including antecedents or drivers, processes or operations, and outcomes or consequences of China's firms international expansion (Deng, 2011). However, very few of these works focus specifically on the particularities of small and mid-sized business (SMEs).

This is a major gap in the academic literature, especially considering: (i) 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) and (ii) that research on Chinese MNCs has attracted great attention (Bhagat, McDevitt, & McDevitt, 2010, Boisot & Meyer, 2008, Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007, Child & Rodrigues, 2005, Fornes & Butt-Philip, 2011, Fornes & Butt Philip, 2012, Mathews, 2006, Rugman & Li, 2007, Rui & Yip, 2008, Williamson & Yin, 2009). Moreover, the few published studies on SMEs are very narrow in focus and cover only a few areas like the changes in China that led to the development of private SMEs (Chen, 2006), the SMEs take-off process (Jansson, Söderman, & Zhao, 2008), the internationalisation patterns and indirect exports (Sandberg, 2009), the barriers to national and international expansion (Cardoza & Fornes, 2011), the environment faced by Chinese SMEs (Boisot & Meyer, 2008), or the ways to improve the performance of SMEs (Zheng, O'Neill, & Morrison, 2009). It is then within this context that this work will

attempt to fill this gap by critically reviewing the academic literature on the international expansion of SMEs from China while at the same time identifying areas for future research.

This paper is structured as follows. The next section presents a review of the literature first followed by an analysis of the context faced by Chinese SMEs and a discussion on the relevant conceptual frameworks. Then, the paper continues with a discussion in two main areas: the impact of the Chinese business environment on the international expansion of SMEs and the need to develop a strong firm-level body of literature. The paper finishes with a summary and conclusions.

## **LITERATURE REVIEW**

### **Theoretical Framework**

Most of the literature on the internationalisation of companies from emerging countries is based on mainstream theory developed in Western economies from their multinational corporations adapted to the specific characteristics of developing countries, see for example Lecraw (1993) and Wells (1983). However, in the case of China it has been suggested that an extended theoretical framework may be applied due to its newly developed capitalist system, its culture, and its different market institutions (Barney & Zhang, 2009, Bhagat, McDevitt, & McDevitt, 2010, Boisot & Child, 1996, Boisot & Meyer, 2008, Child & Rodrigues, 2005, Child & Tse, 2001, Mathews, 2006, Rui & Yip, 2008). 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 category” (Makino, Chung-Ming, & Rhy-Song, 2002) and “is already a much more open economy than most emerging markets” (Blazquez-Lidoy, Rodriguez, & Santiso, 2006). Santiso (2005, 2005) also suggested that Chinese internationalisation has presented a particular “cognitive effect” as it has been very pragmatic and the result of balanced efforts between markets and government intervention.

In this context, Child and Rodrigues (2005), one of the most cited works on the internationalisation of Chinese firms with more than 300 citations as at December 2011 (Google Scholar, 2011), identified four differences with the context where 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 identified three main routes that Chinese companies have been taking towards their internationalisation. One of them, partnerships through original equipment manufacture (OEM) and/or joint venturing (JV), has been the preferred route by many Chinese SMEs in their outward expansion process (Boisot & Meyer, 2008, Cardoza & Fornes, 2011, Child & Rodrigues, 2005, Fornes & Cardoza, 2010), a route that has usually been regarded as inward internationalisation in Western economies. This specific characteristics of China's firms, and in particular of SMEs, tend to indicate that their outward internationalisation process differs from what mainstream IB theories explain and also lends support to the claim by Buckley et al. (2007) (also one of the most cited papers on the international expansion of Chinese firms with more than 310 citations as at December 2011 (Google Scholar, 2011) that the international expansion of China's companies needs "a special theory nested within the general theory".

In this sense, the review of the literature on the outward internationalisation of Chinese firms carried out by Deng (2011) seems to confirm this need as none of the 121 papers "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). Having said this, 92 of the 121 papers (76%) published between 1991 and 2010 in English-language journals have appeared between 2006 and 2010 which indicates the increasing interest to understand how China's firms expand internationally. Most of these papers are included in special issues on the internationalisation of emerging markets-based enterprises (including China) and mainly in top IB journals. These

findings tend to indicate 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) 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, McDevitt, & McDevitt, 2010, Eisenhardt, 1989, Gibbert, Ruigrok, & Wick, 2008).

In addition to this lack of firm-level strong body of literature, the impact on firms (and specifically on SMEs) of the environment created by the ‘socialism with Chinese characteristics’ stated in China’s 1982 Constitution is far from clear especially as most mainstream macro-level theories have been developed within the Anglo-Saxon free-market-oriented economies. Understanding this impact is necessary as the Chinese environment for business is different from what can be found in the US, the EU or other OECD countries. In this sense, previous works have found that “the Chinese Communist Party retain[s] full control of the country’s affairs and remain[s] firmly committed to many of socialism’s key tenets...where...state agencies provid[e] most of the country’s still-limited financial services.... Indeed, the state – and the Party – [are] central players in nearly all aspects of China’s economy” (Spar & Oi, 2006). For example, many of Chinese “MNEs [Multi National Enterprises] remain in state hands, even though corporatised...which means that these firms still align their operations, whether at home or abroad, with the five-year plans and national imperatives” (Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007). In addition, “China’s developing capitalism is not solidly based on law, respect for property rights and free markets” (Blazquez-Lidoy, Rodriguez, & Santiso, 2006).

On the specific characteristics of China’s business environment, Buckley et al. (2007) highlighted the apparent market imperfections where companies operate. These imperfections can be seen in: (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. To this, Cai (1999) and Child and Rodrigues (2005) added that the influence of central and local governments seems to have directed many of the outward foreign direct investment (FDI) processes with the aim of promoting exports and securing raw materials, although some state-owned companies also used their investments abroad to acquire technology and skills.

### **Contextual framework**

For the analysis of Chinese SMEs it is important to understand three main characteristics: (i) different stages of development, (ii) diversity in development patterns, and (iii) different definition for SMES. First, SMEs in China have gone through three main stages (Chen, 2006, Spar & Oi, 2006).

#### *(i) Different stages of development*

The first one, 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 SMEs and the encouragement of the non-public sector. The third stage began in 2002 when China passed the SMEs promotion law (Chen, 2006, Spar & Oi, 2006). In this process, led by important changes in the government's policy, two key elements in the development of SMEs were identified: (a) the development of township and village enterprises, and (b) the development of the non-public sector and, in particular, privately-owned SMEs (Chen, 2006).

The first element, township and village enterprises are "small manufacturing operations led frequently by local communist officials" (Spar & Oi, 2006) that produced anything from local crafts to the manufacture of industrial equipment. Local authorities facilitated loans and they also used to raise funds in many different ways (from retained

earnings, agricultural profits, and loans from local banks). “Each township had its own rural savings and credit cooperative” that provided credits to the TVEs and also to the local farmers. “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” . These enterprises have also helped in the transfer of labour from rural areas to non-agricultural sectors and especially became vehicles from the government (local and national) to achieve objectives in their reform and development strategies (Chen, 2006).

The second element has been the development of the non-public sector and, in particular, privately-owned SMEs. This can be seen especially after 2004 when China amended the constitution to grant the non-state-owned economy a legal status which reflected the size of the changes going on in the country along with the encouragement for the development of business. This new environment has helped to boost international activities from China’s SMEs to the point where they are currently responsible for more than half of the country’s exports. These exports provide 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 (Cardoza & Fornes, 2011, Child & Rodrigues, 2005).

*(ii) Diversity in development patterns*

The patterns of SMEs’ development inside China have been diverse. 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 the central government (Zhiming, 2010). The fact that local governments have beaten Beijing’s growth targets every year in the last three decades, that provinces have more ambitious plans for the expansion (for example, of their rail networks or clean energy) than those stipulated by national targets, and that SMEs represent the most important part of the country’s economic activity, provide evidence of the importance of the different local environment. The local empowerment that began with the decentralisation in



1979 and has continued until today has created different patterns of development of the business environments inside China. 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).

*(iii) Different definition for SMES*

The definition of SMEs in China is different from that in other regions. The National Bureau of Statistics of China (2009) defines SMEs based on a combination among 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 SMEs to include firms with fewer than 500 employees (OECD, 2011).

[Insert Table 1 around here]

The combination of these three characteristics makes research on Chinese SMEs challenging. The result of the different stages and the fact that only after 2002 were private SMEs recognised under Chinese legislation questions the fit of mainstream theories developed in/for Western companies with a long tradition of operating in a free market

environment and within an established institutional fabric. In addition, the diverse development patterns pursued by different regions (exemplified in the co-existence of Huaxi and Nanjie located around only 700 kms away) is evidence of the contradictions currently encountered in China but especially of the open-minded and explorative nature of its citizens which surely have an impact on the international expansion of the small and medium-sized firms operating in these regions. Finally, the differences in the definition of SMEs, 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 need to understand Chinese SMEs**

Following on from what was presented above, the differences between Chinese firms and their home environment and Western companies and their domestic environment raise questions about the fit of mainstream internationalisation theories developed mainly in/for the US and the EU with the situation encountered in China. The fact that no academic work on Chinese companies is yet published in the most influential management journals appears as strong evidence of this.

This gap is wider for Chinese SMEs. Their existence as legal entities is shorter than 10 years; many of them come from relatively successful TVEs (Spar & Oi, 2006) run in different ways than their Western counterparts (Chen, 2006), and the disparities in the Chinese business environment (Zhiming, 2010) along with the fragmentation of the domestic market (Boisot & Meyer, 2008) make the institutional fabric different from that in Western countries (Child & Rodrigues, 2005). In fact, of the 121 papers listed by Deng (2011) only two contain the word 'SMEs' (Cardoza & Fornes, 2011, Zhou, Wu, & Luo, 2007), one the phrase 'small-scale' (Gebre-Egziabher, 2007), one the word 'entrepreneurship' (Liu, Wen, & Huang, 2008), and one the phrase 'new ventures' (Yamakawa, Peng, & Deeds, 2008) in their titles; this

makes a total of only five papers specifically related to Chinese SMEs published in top journals. All this makes evident the need to better understand small firms from China.

## **DISCUSSION**

From the review of the literature presented above, two main areas for discussion can be identified: the impact of the Chinese business environment on the international development of SMEs and the need to develop a strong firm-level body of literature on the international expansion of China's small and medium-sized firms. These two areas will be elaborated below:

### **The impact of the Chinese business environment on the international development of SMEs**

This subsection is divided into three parts; an analysis of the environment for business, a study of how SMEs overcome institutional constraints and market failures, and a review of *guanxi* and the links with the government.

#### *The environment for business*

Davis and North (1971) defined the institutional environment as “the set of fundamental political, social and legal ground rules that establishes the basis for production, exchange and distribution. Rules governing elections, property rights, and the right of contract are examples of the type of ground rules that make up the economic environment” to which North (1990) added that institutions are “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” . In this context, one of the criteria that often underlies definitions of business environments “is the system of market governance and, in particular, the extent and stability of a free market system” (Arnold & Quelch, 1998) along with the “ease with which transactions can take place in any market and the cost associated with it” (Khanna & Palepu, 2002). This is based on the fact that economies should put in place a web of institutions to

facilitate the efficient functioning of markets. These institutions mould the social and organisational behaviour of organisations and, as a consequence, affect their decision-making processes as well as their available options. 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.

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, Clegg, Cross, Liu, Voss, & Zheng, 2007, Makino, Chung-Ming, & Rhy-Song, 2002, Santiso, 2005, Santiso, 2005, Spar & Oi, 2006). This seems evident in three main areas: (i) information problems: comprehensive, reliable, and objective information to make decisions is not widely available (Boisot & Meyer, 2008, Cardoza & Fornes, 2011, Cardoza, Fornes, & Xu, 2011); (ii) misguided regulations: political goals may take priority over economic efficiency reducing thus the chances to take full advantage of business opportunities (Buckley, Clegg, Cross, Liu, Voss, & Zheng, 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, Rodriguez, & Santiso, 2006).

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). 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; 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). For MNEs these higher transaction costs have impacts on mainstream IB theories, in particular on the L in Dunning’s OLI (Dunning,

1977) and also on Buckley and Casson's (1976) MNE concerned with internalising product markets and as a consequence benefiting from the reduction of these transaction costs (Dunning, 2003).

But for Chinese SMEs 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" . To this they 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" . This hypothesis, still yet to be proved, needs to be analysed within the framework of the specific characteristics of the Chinese business environment described above. In this context, in addition, it is also needed to understand the following:

- 1. the impact (if any) of the diverse development patterns pursued by different regions in the international expansion of Chinese SMEs,*
- 2. the impact (if any) of the TVEs structure in the international expansion of Chinese small firms, and*
- 3. the impact (if any) of the early 2000s reforms in the learning curve experienced by Chinese SMEs in their search for international markets.*

#### *Overcoming institutional constraints and market failures*

On the other hand, 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 example, higher transaction costs are also a reason behind the high prevalence in emerging markets of unrelated diversified local business groups mainly due to the low development of the capital and labour markets (Khanna & Palepu, 2010, Khanna &

Palepu, 1997). There are few works presenting cases of Chinese MNEs internalising unrelated activities to minimise the impact of these institutional voids like Galanz (Ge & Ding, 2008) or Haier (Palepu, Khanna, & Vargas, 2006), but it is very difficult to find publications on China's SMEs pursuing this strategy. The closest that can be found are on JV/OEM (Cardoza & Fornes, 2011, Child & Rodrigues, 2005), on indirect exports (Sandberg, 2009), or on ownership structure (Cardoza & Fornes, 2011, Fornes & Cardoza, 2010).

On JV/OEM, Child and Rodrigues (2005) said that this strategy offers an opportunity to build a strong reputation beyond China's borders, and Cardoza and Fornes (2011) found that entering into JV/OEMs agreements with international partners has helped Ningxia's SMEs to reach markets overseas. On indirect exports, a strategy pursued by many SMEs 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 (2011), in one of the first empirical studies on the international expansion of Chinese studies with a sample of more than 500 SMEs in four provinces, found that different stages in the expansion process are supported by different ownership structures; the first national and regional expansions are supported by state ownership/funding and the second international expansion by ownership of the family and by international financial institutions.

These very few works on the strategies pursued by Chinese SMEs to overcome the market imperfections in China's business environment highlight the need to continue the understanding of their expansion process, in particular:

4. *the long-term effect (if any) of JV/OEMs in the catch-up and sustainability of the international expansion of China's SMEs, especially when the first waves of knowledge transferred have been exhausted,*

5. *the long-term effect (if any) of the potential higher liability of foreignness (Johanson & Wiedersheim-Paul, 1975) generated by indirect exports (resulting from the difficulties in getting an export licence) and consequent lack of 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.*

#### *Guanxi and links with the government*

Finally, capabilities for relationship-based management in emerging markets and in particular in China 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, local companies can obtain licences and other benefits due to their close links with the home government and, as a consequence, protect their operations from domestic and international competitors (Fornes, 2009, Fornes & Butt-Philip, 2011, Hoskisson, Eden, Lau, & Wright, 2000). In this context, two main areas appear for the case of China, *guanxi*<sup>1</sup> and links with the government.

On *guanxi* several works have been published (for example, (Barney & Zhang, 2009, Buckley, Clegg, Cross, Liu, Voss, & Zheng, 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 make reference to its effects (if any) on SMEs and specifically on their international expansion process; for example,

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<sup>1</sup> “Interpersonal relationships and connections sustained in the historical context of family- and community-based relationships” Bhagat, R., McDevitt, A., & McDevitt, I. 2010. On Improving the Robustness of Asian Management Theories: Theoretical Anchors in the Era of Globalization. *Asia Pacific Journal of Management*, 27(2): 179-92..

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 been maintaining good relationships with the local government.

Similarly, the links between companies and the Chinese government is an area that has attracted research interests (Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007, Cai, 1999, Chen, 2006, Child & Rodrigues, 2005, Rugman & Li, 2007, Rui & Yip, 2008, Spar & Oi, 2006) where most of the 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 (if any) of these links with the government on SMEs and in particular on their international expansion; Cardoza and Fornes (2011) found that state funding seems to be instrumental during the first stages (local and regional) of Ningxia's SMEs' 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 SMES makes evident the need to extend knowledge in at least the following areas:

7. *the effect (if any) of guanxi in the potential reduction of the liability of foreignness (Johanson & Wiedersheim-Paul, 1975) experienced by Chinese SMEs in their search for customers in international markets,*
8. *the effect (if any) of guanxi in the potential reduction of the psychic distance (Johanson & Wiedersheim-Paul, 1975) and/or information asymmetry between Chinese SMES and the target markets in their international expansion process, and*
9. *the role (if any) of the links with the government (in the form of funding at subsidised interest rates, procurement, granting of exports licenses, access to distribution channels, etc) in the internationalisation process of Chinese SMEs.*



## **The need 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; a review of different firm-level studies on Chinese SMEs and an analysis of the barriers hindering the international expansion of Chinese SMEs.

### *Firm-level studies on SMEs*

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” . In this context, most firm-level studies on the internationalisation of Chinese firms have concentrated on seven main areas: firm size, firm types and ownership, resources and capabilities, network ties, 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 the international expansion, the role of networks and their effect on the search for international markets, the importance of accumulating international experience in the 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 SMEs (Barney & Zhang, 2009).

One of the few 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” . Another work is Mathews (2006), who 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).

Mathews (2006), also one of the most cited works on the internationalisation of Chinese companies with more than 320 citations as at December 2011 (Google Scholar, 2011), 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” .

The relatively high number of citations received by this work seems to indicate that scholars have found this approach 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 MNEs (Bonaglia, Goldstein, & Mathews, 2007, Ge & Ding, 2008, Li, 2007); one of LLL’s strengths, as an extension of OLI (Dunning, 1977), 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. However, there is only one work attempting to test this approach on Chinese SMEs (Cardoza & Fornes, 2011) within these 121 papers.

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 MNEs (examples of these works are (Cui & Jiang, 2009,

Deng, 2007, Deng, 2009, Rui & Yip, 2008). But its use in the analysis of small firms is still scarce; Yamakawa et al. (2008) is one of the five in the list of 121 studying new ventures.

Based on the developments presented above, it is evident that a comprehensive and strong body of literature analysing the expansion of Chinese SMEs is needed, in particular in the following areas:

*10. following Barney and Zhang's proposition for MNEs (2009), whether a theory of Chinese management for SMEs 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 SMEs to expand internationally, and*

*12. the applicability of the RBV in China's context to explain the international expansion of Chinese SMEs.*

#### *Barriers hindering the international expansion of Chinese SMEs*

On the other hand, it would be interesting to know the barriers Chinese SMEs 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. This paper, with more than 175 citations as at December 2011 (Google Scholar, 2011), found two main types of barriers: (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).

There is one study on Chinese SMEs (actually on China's Ningxia Autonomous Region, (Cardoza & Fornes, 2011b)) within the five on small firms in Deng's (2011) list of 121 papers. The findings of this work are somehow different from what was found in most studies on Western SMEs. First, Ningxia faces fewer barriers (31.5% of the total assuming an equal weighting) to their expansion than their Western counterparts. Second, Ningxia's SMEs do not perceive finance as a barrier to their expansion, a barrier mentioned widely in the literature on Western SMEs. Third, the results suggest that Chinese SMEs face different barriers to cross the regional and national boundaries during their process of business expansion. Fourth, the barriers found hindering the expansion of SMEs 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 the expansion along with the weak management skills and knowledge can be related to Learning (one of the Ls in Mathews' (2006) LLL). To continue the understanding of this phenomenon it would be interesting to research the following in other Chinese provinces:

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

*14. the reasons why finance is not perceived as a barrier for the international expansion of SMEs (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 SMEs in their search for market 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 SMEs 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 SMEs, and the need 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 SMEs 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, most of them 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 SMEs. Unfortunately, the data needed for this kind of study is not easily available for the period before 2000 and moreover some sources are not completely reliable.

Finally, with only five papers on Chinese SMEs 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 IB literature by identifying trends towards globalisation (Buckley, 2002) and also by understanding the factors affecting the success and failure of SMEs in international markets (Peng, 2004).

**TABLE 1: DEFINITION OF SMALL AND MEDIUM-SIZED ENTERPRISES**

	<b>Employees</b>	<b>Sales</b>	<b>Total Assets</b>
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	

Source: (National Bureau of Statistics of China, 2009)

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