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INSTITUTIONAL DETERMINANTS OF CHINESE

SMEs' INTERNATIONALIZATION:

THE CASE OF JIANGSU PROVINCE

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ABSTRACT

The paper aims to study the influence of the institutional environment on the international expansion of SMEs from China; the study is based on 134 SMEs operating in Jiangsu Province, China. Data from these companies were analysed using multivariate regressions, and the models used the firms' export intensity as dependent variables. Seven models were run for the following variables, limited access to financial resources, inefficiencies in logistics and distribution in the home market, transport and insurance costs and payment collection methods, assistance from the government, adverse regulatory framework, state ownership, and public procurement. The results show that access to financial resources, distribution inefficiencies, payment methods, and exchange rates influence the internationalisation of Jiangsu's SMEs. The paper concludes with an analysis of these findings compared with those in previous works.

Keywords: Internationalisation from emerging market firms**,** SMEs expansion, institutions' and organisations' interaction.

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INTRODUCTION

In the midst of the global recession emerging economies are driving global economic growth. According to the projections published by The Conference Board's Global Economic Outlook 2011 (The Conference Board, 2011), emerging and developing economies' share of global GDP (gross domestic product) was 50 percent in 2010 and will reach about 60 percent in 2020. In particular, the BRIC countries (Brazil, Russia, India and China) contributed 36.3% of world GDP during the first decade of the century and represent about a quarter of the global economy (in PPP) (Goldman Sachs, 2010). The Conference Board also projects that for the period 2010-2020 emerging and developing economies will grow three times faster than advanced economies and China and India will account for half of global growth and their share in global output will rise to up to 24 percent in 2020 from 16 percent in 2010.

China overtook Germany to become the world's top exporter in 2009[1] and surpassed Japan as the world's second-largest economy in the second quarter of 2010[2]. It has also been estimated that China will overtake the U.S, as the world's largest economy by 2030 (IADB, 2004). This extraordinary transformation and impressive economic growth has been achieved during the last three decades since Deng Xiaoping introduced free-market reforms and opened up the economy to the outside world in 1978 (Ding, Akoorie, & Pavlovich, 2009). All through this period of rapid integration into the global economy and trade liberalization, China has registered the fastest annual rate of TFP (total factor productivity) growth at around 4% (The Economist, 2009a),

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[1] China exported more goods ($957 billion) than Germany ($917 billion) according to data compiled by Global Trade Information Services.
[2] Japan's nominal gross domestic product for the second quarter of 2010 totaled $1.288 trillion, less than China's $1.337 trillion

and its GDP has been growing by an average annual rate of 9.7 percent (Vincelette, Manoel, Hansson, & Kuijs, 2010).

Understanding the Chinese case, and in particular the successful, diverse and dynamic internationalization processes of Chinese firms, has become a priority research subject in many academic centres and institutions. Several books and articles published in recent years have provided a comprehensive overview of the role played by international trade in promoting economic growth and productivity, as well as about the strategies of Chinese multinationals to enter to new markets and the role played by regional and national government policies in the international expansion of Chinese companies. However, scarce attention has been devoted to understand how institutional environments influence internationalization strategies of SMEs from transition economies.

It is also widely accepted that SMEs are the engine of growth since they are: 1. a major source of technological innovation and new products; 2. the main source of new jobs, 3. the largest provider of employment and therefore, they can significantly help reduce poverty and, 4. essential to build competitive and dynamic economies (Storey, 1994). Nevertheless very little has been written about Chinese SMEs, specifically, about their internationalization process. In fact, The Economist (2009b) stated that SMEs account for 60% of China's GDP, are responsible for 66% of the country's patent applications and more than 80% of its new products. They are also responsible for 68% of China's exports and provide more than 80% of total employment. In addition, according to the Ministry of Industry and Information Technology (MIIT) (People's Daily Online, 2010), there are more than 10 million Chinese SMEs and they account for 99 percent of the total enterprises, 50 percent of tax revenue, and 80 percent of urban employment.

In this context, this study has been designed to shed more light on institutional determinants of Chinese SMEs, internationalization and, as a consequence, to contribute to fill this gap in the literature. The paper proceeds as follows. The first section includes some definitions and presents a conceptual framework for the analysis of institutional factors influencing business internationalization strategies and output. Section 2 provides a general overview of the main scholarly contributions to the theory of the institutional-based view of competitiveness in emerging economies and formulates several research questions within an institutional-based perspective. Section 3 presents a review of studies arguing that companies in emerging markets overcome internal barriers and competitive disadvantages through internationalization and develops the hypothesis. The fourth and fifth sections present an analysis of liability of foreignness and the home regulatory framework, respectively, and their impact on the internationalisation of SMEs. Then, section 6 presents the methodology and section 7 the results of the data analysis. The paper concludes with the discussion and conclusion sections.

AN INSTITUTIONAL-BASED VIEW OF COMPETITIVENESS IN EMERGING ECONOMIES: A CONCEPTUAL FRAMEWORK

To better understand how the institutional framework may affect the outcome of internationalization of small and medium size firms from developing economies, we build our conceptual framework from the contributions of institutional theory. In their seminal work, Davis and North (197, p. 6) defined the institutional environment as "the set of fundamental political, social and legal ground rules that establishes the basis for production, exchange and distribution. Rules governing elections, property rights, and the right of contract are examples of the type of ground rules that make up the economic environment". Also, according to North (1990, pp. 3-4), 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".

Later works have stated that institutions are created to: 1- structure and coordinate political, economic, and social relationships among the members of a set society and therefore are essential for economic development (North, 1991; Williamson, 1985) , and 2- reduce the uncertainty in exchanges derived from imperfect information that economic players possess (North, 1993, 1995). Thus, market efficiency depends on their quality and functioning. In general, institutional theory has emphasized how society and organizations are affected by the institutional environment (Scott, 1995) and play a crucial role to lower transaction and information costs (Hoskisson, Eden, Lau, & Wright, 2000, p. 253).

More recently, in his analysis of internationalization and entrepreneurship in Asia, Yeung (2002) defined institutional relations more broadly by "the social and business networks in which these transnational entrepreneurs are embedded, political-economic structures, and dominant organizational and cultural practices in the home and host countries". However, considering the elusiveness and ambiguity of these conceptualizations, for the purpose of this analysis we adopt a more operational definition of institutional environment (IE) proposed by Henisz and Delios (2002, p. 1): "(IE) includes political institutions such as the national structure of policymaking, regulation and adjudication; economic institutions such as the structure of the national factor markets and the terms of access to international factors of production; and socio-cultural institutions such as informal norms".

Specifically, Peng and Heath (1996b) analyzed how different institutional environments determine the growth strategy of state-owned enterprises in centrally planned economies in transition. Along the same lines, Peng (2002) observed that

Chinese firms in order to overcome barriers to expand their business, mainly due to the lack of strategic factor markets and critical resources (e.g. capital and technology), tend to rely on joint ventures and strategic alliances in order to access financial resources and technologies.

Similarly, Yamakawa et al. (2008) argued that new ventures operating in weak institutional frameworks, characterized by lack of financial resources and low levels of legitimacy, face higher constraints and lower performance than state-owned enterprises. Not only is Asian new ventures' performance determined by home institutional environment, they are also affected by the institutional frameworks of host markets that force them to adapt and change (Yeung, 2006). However, relatively few empirical studies have adopted this dual approach to understand how both home and host institutional environments affect business strategies and performance.

INSTITUTIONAL DETERMINANTS OF SMEs INTERNATIONALIZATION

Based on his research on Asian organizations, Peng (2002) argued that in addition to the existing theories – mainly competition based on industry conditions (Porter, 1980) and firms' resource and capabilities perspective (Barney, 1991) – it is necessary also to adopt an institution-based view to explain differences in business strategy since "institutions govern societal transactions in the areas of politics (e.g., corruption, transparency), law (e.g., economic liberalization, regulatory regime), and society (e.g., ethical norms, attitudes toward entrepreneurship)" (Peng, Wang, & Jiang, 2008, p. 922).

In fact, over the last decades a growing body of research has been devoted to studying how institutional environment influences business strategies and internationalization. Among the factors researched we find cultural diversity (Buckley

& Ghauri, 1988; Hofstede, 1981; Hofstede & Bond, 1988; Kogut & Singh, 1988), psychic distance and unfamiliarity with business conditions or liability of foreignness (Calhoun, 2002; Eden & Miller, 2004; Hymer, 1960; Johanson & Vahlne, 1977; Mezias et al., 2002; Petersen & Pedersen, 2002; Zaheer, 1995). Other authors have contributed to the understanding of how the legal institutions and regulatory structures determine business expansion and performance (Child & Lu, 1996; North, 1990; Peng & Heath, 1996a; Peng et al., 2008; Yeung, 2002).

A review of the literature shows that research on effects of institutional environment on the internationalization process has been done mostly for multinationals from developed countries and in few cases, for multinationals and state-owned enterprises from emerging economies (Child & Lu, 1996; Fornes, 2009; Hoskisson et al., 2000; Peng et al., 2008; Wright, Filatotchev, Hoskisson, & Peng, 2005; Yeung, 2002). In their study on influences of IE on firms from emerging and transition markets, Child and Lu (1996) found that they face different institutional constraints related to: 1- intervention by authorities and regulatory bodies in the decision making process; 2- restriction of information usually controlled by authorities; and 3- access for public funding. Similarly, Hoskinson et al. (2000, p. 252) stated that missing institutional features such as shortages of skilled labor, deficient capital markets, infrastructure problems among others, affect companies' strategies and deter inward foreign direct investment.

However, with few exceptions (Cardoza & Fornes, 2009; Cardoza & Fornes, 2011; Chen, 2006; Ma, Wang, & Gui, 2010) the institutional environment's influence on SMEs, internationalization has received scarce attention from researchers, particularly on emerging and transition economies. With the purpose to contribute to fill this gap, this paper focuses on the study of how different institutional factors such as

lack of financial support, scarce government assistance, liability of foreignness and excess regulation affect the international expansion of SMEs from China, a country which is currently in transition from central planning into a market-based economy. This is particularly important since, as it has been argued by Hoskinson et al. (2000, p. 253), in the first phase of transition when markets are still in formation, institutional theory presents a more relevant theoretical framework to understand the behavior of firms.

Arguing that the internationalization strategies of Chinese SMEs can be greatly influenced by institutions from both home country and host countries we formulate the following set of questions within an institution-based perspective: How may asymmetric information affect the internationalization strategies of Chinese SMEs? How is the lack of knowledge and experience of functioning of foreign markets conditioning the outcome of internationalization strategies of Chinese SMEs? In addition, in the current transition between the centrally planned to the market-based economy, it seems important to understand how the role of Chinese local and central governments (policies, assistance and regulation) may affect the international expansion of SMEs.

OVERCOMING INTERNAL BARRIERS AND COMPETITIVE DISADVANTAGES THROUGH INTERNATIONALISATION

Chinese multinationals benefit from diverse competitive advantages. First, the availability of abundant low-cost labour allows these companies to benefit from low manufacturing cost (Williamson & Yin, 2009). Also, larger Chinese firms take advantage of government involvement, usually through ownership, and home institutional environments especially designed to offer them governmental financial

backing for globalization, assistance to form partnerships and joint ventures and access to state-supported scientific and technical knowledge (Child & Rodrigues, 2005, p. 400).

Nevertheless, Williamson and Yin (2009, p. 80) affirm that low-cost labour advantage is insufficient to do business in global markets and argue that, "if Chinese companies are to succeed in going global they clearly need a source of competitive advantage that not only sets them apart from established global players, but also compensates for their disadvantages as newcomers".

In fact, compared with the MNCs from industrialized countries, Chinese companies are facing different obstacles and multiple competitive disadvantages to become global players, including: restricted access to capital to reach the size necessary to allow them to benefit from economies of scale; weak R&D capabilities and outdated technology; poor management training; shortages of talent; regional protectionism; weak brands; and limited information and knowledge about overseas markets (Cardoza & Fornes, 2009; Child & Rodrigues, 2005; Ding et al., 2009). Moreover, deficiencies in infrastructure, lack of strong legal frameworks and weak intellectual property rights as well as the over-regulated environments in which they operate in their domestic markets hinder their process of international expansion. As explained by Lu and Tao (2010), until 1988 private enterprises were not allowed to exist in China and the institutional environment (mainly, property rights protection and contract enforcement) in which they have emerged was mostly hostile during the transition from a centrally planned economy to a market-based economy.

These barriers have also affected Chinese SMEs in their process of internationalization. More specifically, limited access to private and public financial resources, lack of adequate policy frameworks, weak protection systems for intellectual

property rights, and suitable regulations for SMEs and the isolation of these companies from the research centres and universities (Ma et al., 2010) limit the possibilities of strengthening the SMEs' management and the financial and technological capabilities needed to compete in domestic and foreign markets.

To overcome these obstacles, several explanations have been advanced. For instance, based on case studies of Chinese firms, Child and Rodrigues (2005) asserted that contrary to mainstream theories that presuppose that companies internationalize to exploit competitive advantages, Chinese firms go abroad to overcome competitive disadvantages and to get access to technologies and other resources and capabilities they require to compete internationally. Also, these authors affirm that the latecomer perspective offers a more suitable framework to understand the internationalization process in China since "it directs attention to international investment as a means of addressing competitive disadvantages. They consider that the concepts of 'late development' and 'catch-up' used to explain the rapid growing economies of South-East Asia could also be useful to describe the process of internationalization of many Chinese firms since these 'latecomer firms' internationalize to overcome internal obstacles and to get access to new resources and capabilities.

Similarly, when analyzing the internationalization of the so-called newcomers and latecomer firms in China, Mathews (2006) added that their success is not based on "the possession of overwhelming domestic assets which can be exploited abroad [but rather]… their international expansion has been undertaken as much for the search for new resources to underpin new strategic options, as it has been to exploit existing resources". Using the resource-based framework to explain the success of latecomer firms from China in their internationalization process, Mathews (2006, p. 6) argues that internationalization of Chinese firms has been undertaken, often through partnerships

and joint ventures, for the search for key resources such as skills, knowledge and capital.

Boisot and Meyer (2008, Pp. 358-361) also observed that, contrary to the internationalization literature that was mostly based on the assumption that a firm first expands in home markets then goes abroad to exploit some competitive advantage, Chinese firms expand internationally "at a smaller size than their Western and Japanese counterparts [and that] they will do so in order to escape the competitive disadvantages that they confront in the domestic market and that outweigh the competitive advantages of a large market size". For instance, as explained by Boisot and Meyer (2008), given the high transport and logistics costs in China it is easier and less costly for Chinese firms to have access to foreign markets than to their domestic markets[3]. Similarly, Naudé and Rossouw (2010) argued that government regulations and inefficiencies in logistics not only increase the costs of doing business in internal markets in China but also influence the internationalization options of indigenous firms.

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

In effect, to overcome these domestic disadvantages new ventures are also forced to go abroad where they eventually will have easier access to necessary resources (Child & Rodrigues, 2005; Yamakawa et al., 2008). As observed by Yamakawa et al. (2008), new ventures find more friendly institutional environments in developed

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[3] As an example, Boisot and Meyer (2008, p. 354) mentioned is that "it costs more to transport goods from Chengdu, the capital of Sichuan Province, to Shanghai than from Shanghai to New York."

countries including better intellectual property protection and easier access to financial support.

Summing up, these researchers have argued that in order to mitigate risks associated with market imperfections a growing number of Chinese SMEs are opting to internationalize their business activities. Building on these insights and considering that these arguments have been mostly based on case studies, we conducted empirical research to verify whether, as suggested by the cited works, Chinese SMEs' internationalization is positively related to the perception by managers and entrepreneurs about the difficulties and obstacles imposed by their domestic institutional environments. The following hypothesis can then be formulated:

> *H1: To address the competitive disadvantages associated with limited access to financial resources in the home market, Chinese latecomer SMEs from Jiangsu tend to internationalize their business activities.*
> *H2: SMEs from Jiangsu tend to internationalize their business activities to overcome perceived domestic barriers associated with inefficiencies in logistics and distribution.*

LIABILITY OF FOREIGNNESS AND INTERNATIONALIZATION OF CHINESE SMES

As pointed out by Hymer (1960), entrant firms in a foreign market should manage and mitigate the 'liability of foreignness' disadvantage derived mainly from foreign exchange risks and the unfamiliarity with local business conditions. Although the liability of foreignness concept has been used by different authors (Calhoun, 2002; Hymer, 1960; Mezias et al., 2002; Petersen & Pedersen, 2002; Zaheer, 1995) to study the entrance barriers of MNCs, researchers have devoted limited attention to understand how SMEs are affected by these barriers in their process of internationalization.

In the same line of reasoning, we can argue that internationalization of Chinese SMEs is negatively affected by high operations costs in transport and insurance and inefficiencies in payment collection logistics in host markets.

H3: SMEs from Jiangsu facing logistic barriers associated with high transport and insurance costs and payment collection methods in host markets tend to exhibit poor internationalization outcomes.

GOVERNMENT ASSISTANCE, REGULATORY FRAMEWORK, AND INTERNATIONALIZATION

The 'Go Global' policy launched in 1999 by the Chinese government was mainly oriented to promote internationalization of large state-owned enterprises (SOEs) mainly through outward FDI based on low interest loans to purchase foreign companies (Ding et al., 2009). Compared with SOEs, new ventures suffer regulative discrimination that preventing them having access to key resources for their domestic and international expansion. In effect, although China has experienced an evolution towards a more entrepreneurial institutional policy framework in recent years, still the all-encompassing controls of local government generate institutional dependence and increase transactions costs (Boisot & Meyer, 2008; Child & Rodrigues, 2005). Bureaucratic protectionism and the complexity of regulatory frameworks create additional hurdles and add difficulties to the international expansion of firms.

In reality, the large diversity and inconsistency of legal protection, regulatory systems and government support policies across different Chinese regions and industries determine different levels of legal protection that force firms to rely on interpersonal relationships (*guanxi*) to build trust and to overcome market and state failures (Cai, Jun, & Yang, 2010). Chinese industrial policies, such as government

procurement, have been implemented mostly to promote the internationalization of selected state-owned enterprises but also, in some cases, to promote growth and international expansion of non-state enterprises (Nolan, 2002). Moreover, as argued by Li et al. (2008), to overcome institutional failures and avoid ideological discrimination against private ownership, companies tend to establish close ties with local or central governments. Cai et al. (Cai et al., 2010) also affirmed that government involvement in the decision making process and the variety of types of support depending on the firm's location and relationship to central or local governments (i.e. economic importance, industrial sector, size, and ownership) have an effect on the firm's competitiveness and behaviors.

> *H4: Jiangsu SMEs not receiving appropriate government assistance tend to exhibit poor internationalization outcomes*
>
> *H5: Jiangsu SMEs perceiving adverse regulatory frameworks tend to exhibit poor internationalization outcomes*
>
> *H6: Jiangsu SMEs with state participation in their capital have more propensity to internationalize*
>
> *H7: Jiangsu SMEs benefiting from public procurement contracts exhibit more propensity to internationalize*

SAMPLE, DEFINITIONS AND METHODOLOGY

The data was collected through a survey applied to a sample of 137 senior managers and directors of SMEs in Jiangsu Province[4] (data from only 134 questionnaires were used as the replies from the other three were not complete) gathering information about the

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[4] Jiangsu Province is one of the most developed regions in China with one of the most vibrant economies. In 2012, it is expected to overtake Guangdong as China's largest provincial economy as well as it is one of the provinces expected to have an annual GDP over US$1,000bn within the next few years (which means an economy larger than that of Russia, Spain, or Canada, for example) (Lall, 2010). Jiangsu Province is the home of the widely known China-Singapore Suzhou Industrial Park. The population of the province is 75.5 million with an exports/GDP ratio of 58.43% (Jiangsu Economic and Development Report, 2006).

companies along with data on managers' perception using 5-Point Likert-type scales. Participants operate within similar idiosyncratic characteristics (managerial, organizational, and environmental) making the responses operative (Barret & Wilkinson, 1985) and, as a consequence, a similar contextual view of the challenges faced by their firms was obtained.

Table 1 presents selected answers from the survey. In this table, it is possible to see that around 19% of the firms in the sample are owned by the state (more than a 50% stake). These companies operate mainly in manufacturing (20%), wholesale (10%), and professional services (9%). Most were founded more than six years ago, and the great majority of their managers are men (74%) between 22 and 44 years old, with a university education. These companies show a relatively high active participation by members of the managers' families. Most of these SMEs have funded their operations using loans, mainly from state-owned banks, in the last two years.

[Insert Table 1 around here]

The data analysis is based on multivariate regression analyses using export intensity (the ratio of international sales to total sales) as a dependent variable and the answers from the survey as independent variables. Export intensity, a measure of expansion firm performance (Bonaccorsi, 1992; Calof, 1994) is used as a proxy for engagement in international economic activities in the models. The definition taken for SMEs is that given by the National Bureau of Statistics of China (2007) and can be seen in Table 2.

[Insert Table 2 around here]

The models for the hypotheses can be seen below. The definition for the variables can be seen in Table 3, the scale variables were based on Leonidou (2004)

[Insert Table 3 around here]

Limited access to financial resources (H1)

$$I_i = \alpha + \theta_1 Personal_i + \theta_2 State_i + \theta_3 Private_i + \theta_4 Finance_i + \varepsilon_i \qquad \text{(Equation 1)}$$

where I_i is the export intensity of company i. The following sources of funding, *Personal*, *State*, and *Private*, were included as control variables for the main independent variable *Finance* defined in Table 3. The main purpose of this model is to verify whether limited access to financial resources to fund export-oriented plans lead SMEs to internationalize their business activities. In this context it is necessary to keep in mind that the great majority of the banks in Jiangsu are owned by the state (local or national).

Inefficiencies in logistics and distribution (H2)

$$I_i = \alpha + \theta_1 Industry_i + \theta_2 Years_i + \theta_3 Distribution_i + \theta_4 DistAccess_i + \varepsilon_i \qquad \text{(Equation 2)}$$

where I_i is the export intensity of company i, *Industry* and *Years* since start-up are control variables, and *Distribution* and *DistAccess* are the variables defined in Table 3. The intention here is to see if the complexity and associated costs to access international distribution channels affect the ability of SMEs to export their products and serve competitively in international markets.

Liability of Foreignness (H3)

$$I_i = \alpha + \theta_1 Industry_i + \theta_2 Years_i + \theta_3 Transport_i + \theta_4 Payment_i + \varepsilon_i \qquad \text{(Equation 3)}$$

where I_i is the export intensity of company i *Industry* and *Years* since start-up are control variables, and *Transport* and *Payment* are the variables defined in Table 3. The equation is formulated to see if transport and insurance costs related to exports as well as payment collection methods make Chinese SME´s export activities more difficult.

Appropriate government assistance (H4)

$$I_i = \alpha + \theta_1 Industry_i + \theta_2 Years_i + \theta_3 Assistance_i + \theta_4 DomRegulations_i + \varepsilon_i \text{ (Equation 4)}$$

where I_i is the export intensity of company i, *Industry* and *Years* since start-up are control variables, and *Assistance* and *DomRegulations* are the variables defined in Table 3. The analysis intends to understand if the lack of government assistance and incentives along with adverse domestic regulations prevent SMEs to capitalise opportunities in international markets.

Adverse regulatory frameworks (H5)

$$I_i = \alpha + \theta_1 Industry_i + \theta_2 Years_i + \theta_3 EconEnvironment_i + \theta_4 ExchRate_i + \varepsilon_i \text{ (Equation 5)}$$

where I_i is the export intensity of company i, *Industry* and *Years* since start-up are control variables, and *EconEnvironment* and *ExchRate* are the variables defined in Table 3. The purpose of this model is to see if the deterioration of the countries' economic environment and exchange rate variations are perceived as barriers and/or sources of risk to Chinese SMEs for their international expansion.

State Participation (H6)

$$I_i = \alpha + \theta_1 Industry_i + \theta_2 Years_i + \theta_3 Family_i + \theta_4 SpecialPartnerships_i +$$
$$\theta_5 FinancialInstitutions_i + \theta_6 State_i + \varepsilon_i \text{ (Equation 6)}$$

where I_i is the export intensity of company i, *Industry* and *Years* since start-up are control variables, and the independent variables represent different ownership types (measured using the percentage of their stake in the company) defined in Table 3. This equation has been formulated to see if, in comparison with other sources of funding such as family, financial institutions, or partnerships, Jiangsu's SMEs with state participation in their capital are more likely to internationalize.

Public Procurement (H7)

$$I_i = \alpha + \theta_1 Industry_i + \theta_2 Years_i + \theta_3 Wholesale_i + \theta_4 Manufacture_i + \theta_5 NoManufacture_i +$$
$$\theta_6 LocalGov_i + \theta_7 NatGov_i + \theta_8 Retail_i + \theta_9 Others_i + \varepsilon_i \qquad \text{(Equation 7)}$$

where I_i is the export intensity of company i, *Industry* and *Years* since start-up are control variables, and the independent variables represent different customer types (measured using the percentage of total sales) defined in Table 3. The rationale behind this model is to assess the impact (if any) on Jiangsu's SMEs of public procurement contracts and the relation (if any) with their propensity to internationalize.

Robustness Checks

The models were checked for regression assumptions. The first check was specification, the omission or inclusion of irrelevant variables and the selection of an incorrect functional form; all the variables in the models are based on the review of the relevant literature that frames this research. This process was carried out to test the robustness of the model, to avoid losses in the accuracy of the relevant coefficients' estimates, and to avoid a biased coefficient by estimating a linear function when the relationship between variables was nonlinear (Schroeder, Sjoquist, & Stephan, 1986). Secondly, different measures were put in place to avoid measurement errors, such as back translations and pilot testing of the questionnaire, data collected in similar contexts (as explained above) and the use of reliable sources to obtain second-hand data. Thirdly, t-statistics were adjusted by a heteroskedasticity correction in the regressions (White, 1980)[5] to test if error terms depend on factors included in the analysis. Finally, autocorrelation was checked by calculating the Durbin-Watson coefficient, and multicollinearity was tested through an analysis of the correlation coefficients between the variables in the model and the calculation of the Variance Inflation Factor (VIF).

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[5] 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.

RESULTS

Tables 4, 5, 6, 7, 8, 9 and 10 present the correlations matrices for the seven models respectively. Tables 4, 9 and 10 present the Pearson's ρ coefficient and Tables 5, 6, 7 and 8 show the Kendall's τ coefficient as the equi-distance in the Likert scales cannot be justified. 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. The Durbin Watson coefficients of the different models do not show autocorrelation[6]. The VIFs in Table 10 present potential signs of multicollinearity; for this reason *Retail* was drop from the analysis, the subsequent matrix shows no signs of multicollinearity. In summary, all the original variables (with the exception of *Retail* in H7 due to the high VIF) were kept in the models 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, 6, 7, 8, 9 and 10 around here]

The results of running the seven models (Equations 1, 2, 3, 4, 5, 6 and 7) can be found in Table 11. An analysis of the individual analyses follows.

[Insert Tables 11, and 12 around here]

Table 11 H1 (limited access to financial resources model): this column presents the results of running Equation 1 where it is possible to see that *Finance* is statistically significant ($|\beta_m/S_b| > t_{n-3;\,0.95}$). This accepts *H1*.

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[6] H1 *d*: 1.86; H2 *d*: 1.92; H3 *d*: 1.90; H4 *d*: 1.82; H5 *d*: 1.86; H6 *d*: 1.73; H7 *d*: 1.81.

Table 11 H2 (domestic inefficiencies in logistics and distribution model): this column presents the results of running Equation 2 where it is possible to see that *Distribution* is statistically significant ($|\beta_m/S_b|>t_{n-3; \, 0.95}$). This partially accepts *H2*.

Table 11 H3 (liability of foreignness model): this column presents the results of running Equation 3 where it is possible to see that *Payment* is statistically significant ($|\beta_m/S_b|>t_{n-3; \, 0.95}$). This partially accepts *H3*.

Table 11 H4 (appropriate government assistance model): this column presents the results of running Equation 4 where it is possible to see that no variable is statistically significant ($|\beta_m/S_b|>t_{n-3; \, 0.95}$). This rejects *H4*.

Table 11 H5 (adverse regulatory framework model): this column presents the results of running Equation 5 where it is possible to see that *ExchRate* is statistically significant at 95% ($|\beta_m/S_b|>t_{n-3; \, 0.95}$). This partially accepts *H5*.

Table 11 H6 (state participation model): this column presents the results of running Equation 6 where it is possible to see that no variable is statistically significant ($|\beta_m/S_b|>t_{n-3; \, 0.95}$). This rejects *H6*.

Table 11 H7 (public procurement model): this column presents the results of running Equation 7 where it is possible to see that no variable is statistically significant ($|\beta_m/S_b|>t_{n-3; \, 0.95}$). This rejects *H7*.

DISCUSSION AND CONCLUSIONS

The data analyses confirm that there is a statistically significant relationship between restricted access to financial resources and internationalization. In effect, as has been argued previously by several authors (Boisot & Meyer, 2008; Child & Rodrigues, 2005; Mathews, 2006; Sutherland & Ning, 2011) for Chinese MNCs and also for new ventures (Yamakawa et al., 2008), Chinese latecomer SMEs from Jiangsu tend to

internationalize their business activities in order to overcome the competitive disadvantages associated with limited access to financial resources in the home markets. Cardoza and Fornes (2009) also found that restricted access to finance is not a barrier to the internationalization of SMEs from China's Ningxia Hui Autonomous Region.

Similarly, the study also confirms that there is a statistically significant relationship between domestic inefficiencies in logistics and distribution and export intensity indicating that SMEs from Jiangsu tend to internationalize their business activities to overcome increasing costs. This result adds to Boisot and Meyer's (2008) hypothesis that contrary to mainstream internationalization literature mainly based on the assumption that a firm first expands in the home markets and then goes abroad to exploit some competitive advantage, Chinese firms expand internationally in order to overcome the competitive disadvantages that they confront in the domestic market. On the other hand, as hypothesized, Chinese SMEs facing high operation costs in transport and insurance coupled with inefficiencies in payment collection logistics in host markets face additional constraints that negatively affect the SME's internationalization strategies.

Contrary to what was expected, the empirical evidence does not show a relation between: a- the government assistance; b- the domestic regulation in place; c- the state participation in the firms' capital; d- the economic environment, and e- procurement contracts, and the internationalization outcomes of Jiangsu SMEs. Similar findings were presented by Ge and Ding (2008) in their analysis of Galanz. In effect, the lack of appropriate government assistance and the regulation frameworks seem not to affect the process of internationalization of firms regardless of the type of industry and years since start-up. Similarly, SMEs with state participation in their capital and benefiting from procurement contracts do not show any propensity to internationalize either. Neither did

SMEs from Ningxia show any relation between state ownership and internationalization (Cardoza & Fornes, 2009).

These results can be partially explained because of the complexity and intricacies of government assistance programs, the unsuitability of the regulatory framework, the poor quality and/or MNCs-focused public assistance services for internationalization and the all-encompassing controls and bureaucratic restrictions that accompany the state participation in firms' capital that generates institutional dependence and increase in transaction costs (Boisot & Meyer, 2008; Child & Rodrigues, 2005). Likewise, government procurement policies have been implemented mostly to promote the internationalization of selected state-owned enterprises (Nolan, 2002) and the scarce learning and technological capabilities derived from procurement contracts do not seem to favour the international expansion of Jiangsu's SMEs.

On the other hand, a positive relation between the exchange rate policies and the internationalization outcome was found. Chinese entrepreneurs seem to understand that besides appropriate systems of tariffs and subsidies, an undervalued currency favour their internationalization strategies, in particular exports.

Finally, the results presented in this work aim to contribute to the literature on the international expansion of companies, especially SMEs from emerging economies and specifically from China. In this context, from what has been found in this work, it seems that the existing literature based on Western SMEs does not seem to accommodate adequately the specificity of the Chinese SMEs' outward internationalisation process (a similar conclusion has been reached in previous papers (Boisot & Meyer, 2008; Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007; Child & Rodrigues, 2005; Child & Tse, 2001; Rui & Yip, 2008; Yamakawa et al., 2008))

Table 1: Selected Answers from the Survey (n=137)

22-34	35-44	Gender of respondent M	F	Studies of respondent UG	PG	State-owned	Active Participation Brother/sister	Husband/wife	Father/mother	Funding sources in the last two years Loans from banks	Own savings	Previous years' profits	Private investors	% of SMEs with sales in different markets 76-100% Domestic	76-100% Regional	76-100% National	26-75% RoW	76-100% RoW
47%	22%	74%	26%	59%	29%	19%	28%	31%	20%	21%	8%	16%	10%	14%	2%	6%	2%	3%

Profits during last year Decreased	Slightly decreased	Kept at same level	Slightly increased	Increased	Main Activity Manufacture	Hotel/Rest	Retail	Wholesale	Professional Services	IT	Construction	Transportation	Real estate	Finance/insurance	Health/Education	Others	Years since start-up 4-6	>6
7%	13%	21%	25%	33%	20%	8%	1%	10%	9%	8%	7%	2%	6%	6%	4%	19%	24%	52%

Table 2: Definition of Small and Medium-Sized Enterprises

	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 Using a 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
Distribution	The company finds the distribution channels complex to serve international markets	Assistance	The government does not offer adequate assistance and incentives to carry out export activities
DistAccess	It is complex and costly to access the distribution channels to export the company's products	DomRegulations	The regulations in place make it more difficult to capitalise on opportunities in international markets
Transport	The company considers that the transport and insurance costs related to exports are excessive	EconEnvironment	The deterioration of the countries' economic environment is an additional barrier to exports
		ExchRate	Exchange rate variations represent an important risk for the company's exports

Ordinal Variables

Personal	Own Savings, Family, Second Mortgage, Credit Card, Loans from Friends, Inheritance, and Pension	Industry	Manufacture, Hotel/Rest, Retailer, Wholesaler, Professional Ss, IT, Construction, Transportation, Real estate, Finance/insurance, Health/Education/Social SS, Others.
State	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 company.	FinancialInstitutions	% of the company owned by financial institutions.
SpecialPartnerships	% of the company owned by other partners, including JVs, OEM, and other international partners.	Wholesale	% of the company's sales to Wholesalers.
Manufacture	% of the company's sales to Manufacturing companies	NoManufacture	% of the company's sales to Non Manufacturing companies.
LocalGov	% of the company's sales to the Local Government.	NatGov	% of the company's sales to the National Government.
Retail	% of the company's sales to Retailers.	Others	% of the company's sales to Other customers.

Table 4: Correlation Matrix for the Limited Access to Financial Resources Model – Pearson's ρ Coefficient

	Personal	State support	Private	Finance	VIF
Personal	1.00				1.02
State support	-0.10	1.00			1.03
Private	-0.10	0.02	1.00		1.02
Finance	0.05	0.13	-0.08	1.00	1.03

Table 5: Correlation Matrix for the Inefficiencies in Logistics and Distribution Model - Kendall's τ Coefficient

	Industry	Years	Distribution	DistAccess	VIF
Industry	1.00				1.01
Years	-.06	1.00			1.05
Distribution	.02	-.166*	1.00		1.59
DistAccess	.01	-.146*	.528**	1.00	1.58

*. 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 the Liability of Foreignness Model - Kendall's τ Coefficient

	Industry	Years	Transport	Payment	VIF
Industry	1.00				1.02
Years	-.06	1.00			1.04
Transport	.01	-.13	1.00		1.19
Payment	-.08	-.10	.330**	1.00	1.19

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

Table 7: Correlation Matrix for the Appropriate Government Assistance Model - Kendall's τ Coefficient

	Industry	Years	Assistance	DomRegulations	VIF
Industry	1.00				1.02
Years	-.06	1.00			1.02
Assistance	-.08	-.05	1.00		1.02
DomRegulations	.02	-.08	-.01	1.00	1.01

Table 8: Correlation Matrix for the Adverse Regulatory Frameworks Model - Kendall's τ Coefficient

	Industry	Years	EconEnvironment	ExchRate	VIF
Industry	1.00				1.03
Years	-.06	1.00			1.05
EconEnvironment	-.11	-.161*	1.00		1.49
ExchRate	-.08	-.08	.484**	1.00	1.44

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

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

Table 9: Correlation Matrix for the State Participation Model - Pearson's ρ Coefficient

	Industry	Family	Other partners	Financial institutions	State	VIF
Industry	1.00					1.07
Family	-0.16	1.00				8.62
Other partners	-0.07	-0.45**	1.00			5.71
Financial institutions	0.17	-0.20*	-0.09	1.00		2.20
State	0.15	-0.58**	-0.29**	-0.11	1.00	7.13

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

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

Table 10: Correlation Matrix for the Public Procurement Model (original) and without "Retail" - Pearson's ρ Coefficient

	Industry	Years	Retailers and wholesalers	Manufacture	Non Manufacture	Local Government	Central Government	Retail	Others	VIF
Industry	1.00									1.09
Years	-0.09	1.00								1.05
Retailers and wholesalers	-0.08	-0.04	1.00							17.71
Manufacture	-0.04	0.01	-.365**	1.00						20.63
Non Manufacture	0.09	0.00	-.225**	-.280**	1.00					11.46
Local Government	0.08	-0.16	-.181*	-.255**	0.04	1.00				7.51
Central Government	-.172*	0.02	-0.09	-0.16	-0.03	0.03	1.00			3.10
Retail	-0.05	0.07	-.170*	-.244**	-.218*	-0.15	-0.09	1.00		12.80
Others	0.14	0.09	-.216*	-0.15	-0.15	-0.09	-0.01	-0.13	1.00	6.82

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

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

	Industry	Years	Retailers and wholesalers	Manufacture	Non Manufacture	Local Government	Central Government	Others	VIF
Industry	1.00								1.09
Years	-0.09	1.00							1.05
Retailers and wholesalers	-0.08	-0.04	1.00						2.00
Manufacture	-0.02	0.01	-.365**	1.00					2.06
Non Manufacture	0.09	0.00	-.225**	-.275**	1.00				1.54
Local Government	0.08	-0.16	-.181*	-.271**	0.04	1.00			1.41
Central Government	-.172*	0.02	-0.09	-0.15	-0.03	0.03	1.00		1.14
Others	0.14	0.09	-.214*	-0.08	-0.15	-0.09	-0.01	1.00	1.35

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

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

Table 11: Results from Regressions

	H1		H2		H3		H4		H5		H6		H7	
	β	t	β	t	β	t	β	t	β	t	β	t	β	t
a	0.43	4.62	-0.04	-0.32	0.03	0.27	0.20	1.43	0.27	2.09	0.33	1.75	0.24	1.98
Personal	-0.07	-1.87												
State	0.06	1.53												
Private	-0.07	-2.38												
Finance	-0.07	-2.30												
Industry			0.00	0.67	0.01	0.95	0.01	0.82	0.01	0.74	0.00	-0.08	0.01	0.88
Years			-0.03	-1.05	-0.03	-1.34	-0.04	-1.62	-0.04	-1.66			-0.04	-1.68
Distribution			0.11	3.67										
DistAccess			-0.02	-0.70										
Transport					0.01	0.29								
Payment					0.06	2.12								
Assistance							0.03	0.93						
DomRegulations							-0.02	-0.50						
EconEnvironment									0.08	1.59				
ExchRate									-0.10	-2.47				
Family											-0.22	-1.19		
SpecialPartnerships											-0.20	-1.09		
FinancialInstitutions											0.04	0.14		
State											0.13	0.68		
Retail&Wholesale													0.04	0.36
													0.06	0.54
NoManufacture													-0.05	-0.36
LocalGov													-0.13	-0.77
NatGov													-0.06	-0.22
Others													-0.08	-0.49
R^2	0.11		0.14		0.07		0.03		0.07		0.16		0.05	

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