INTERNATIONALISATION PATTERNS OF CHINESE ENTREPRENEURIAL FIRMS

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Abstract

This paper investigates decisions of Chinese privately-owned enterprises (POEs) leading to internationalisation and seeks to understand patterns of internationalisation which such firms subsequently display. Examining the argument that Chinese firms apply different rationales and develop different means to operate than their counterparts from developed 'Western' nations, this paper is positioned to make a contribution to the internationalisation literature, with special emphasis on two approaches, the stages model and international new venture literature. Based on qualitative data from six cases this paper evaluates in how far extant literature can explain the behaviour of Chinese POEs and discusses if new theories are required to capture distinct Chinese rationales or ways of internationalising.

Key words: Stages model of internationalisation; international new ventures; privately-owned enterprises in China.

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INTERNATIONALISATION PATTERNS OF CHINESE PRIVATELY-OWNED ENTERPRISES

1. INTRODUCTION

In 2006, the Chinese economy has become the world's second largest exporter behind Germany and has been the third largest importer of goods and services (UNCTAD, 2007). The same source reports inward foreign direct investment (FDI) flows of US$ 72 billion in 2005, which makes only the UK and the US bigger target countries. While the stock of inward FDI reached around US$ 318 billion in 2005, the outward FDI stock in the same year reached US$ 46.3 billion with outward flows in 2006 surging to over US$ 21 billion in 2006 (UNCTAD, 2007).

With exports accounting for over 40% and imports around 34% of the GDP international trade is a critical factor for China to maintain its high economic growth of in average around ten percent (Chinability, 2008). While a relative labour cost advantage has been a significant source for China's exporting success (Child & Rodrigues, 2005) the growing per capita income is incrementally diminishing this location advantage.

Similar to other transition economies the Chinese government actively controls economic development, especially through ownership in state-owned enterprises (SOEs), through regulatory measures and government programmes (Peng, 2000). Policies are directed to balance FDI and trade flows and are targeting to secure China's increasing political and diplomatic international influence (Wang, 2002, Qi, 1999). Policies were introduced to safeguard future prosperity, for instance the '*go-out*' policy in the 1990ies (Wu, 2005), enabling domestic firms' international expansion and direct investments abroad, or China's '*go-global*' policy which was launched in 1999 (Child & Rodrigues, 2005). This initiative encouraged more enterprises to actively invest overseas in order to improve international competitiveness (SMS, 2007). Measures within this policy included a simplified approval process for outward FDI and a number of incentives such as tax rebates, subsidies and assistance with foreign exchange and loans with preferential terms (Child & Yan, 2001).

These changes in the institutional environment led many firms to increase their international involvement and commitment. By 1985 only 185 Chinese ventures were active internationally (Tseng & Mak, 1996), while this number has increased by 2003 to already over 7400 Chinese companies which had investments abroad (PDO, 2004). Many of these firms are not the usual suspects, SOEs or collective-owned enterprises (COEs), but are the fast increasing company type of privately-owned enterprises (POEs).

POEs have been introduced in 1978, when the economic reforms considered private ownership in order to increase efficiency through competition. Since then the development of this entrepreneurial type of firm has been rapid and highly influential for the advancement of a market-based economy system (Yang & Zhang, 2003). By 2006 about 4.8 million POEs employed over 63 million people (Xinhua, 2006). Zhao (2006) estimated that POEs' contribution to the country's economy in 2005 exceeded 65%, including the contributions from foreign funded ventures, while indigenous private enterprises contributed to more than a third of the domestic product. Xinhua (2006) reported that POEs' total export value between January and September 2006 exceeded US$ 173 billion.

In relation to SOEs and COEs privately-owned enterprises are nevertheless at a disadvantage because their access to finance and other critical resources is relatively difficult and high taxes and regulations slow their development (Schiffer & Weder, 2001), making them very much reliant on good performance and cash flow generation to survive and grow.

Considering POEs' operational obstacles and institutional shortcomings on one side and the rapidly growing domestic market on the other side makes the size of their exports and other international operations appear rather impressive. In order to increase our understanding of this phenomenon we therefore focus on the following questions: (a) which motives do Chinese POEs' have for internationalisation; (b) which factors influence their decisions to internationalise; and (c) how do these firms internationalise?

While there is a large and growing literature providing explanations for these questions in International Business Studies they have been criticised as '*Western*' conceptualisation of the internationalisation phenomenon, which might differ from models that are used by Asian firms (i.e. Sim & Pandian, 2003). In order to explore why and how Chinese POEs internationalise we chose to apply a qualitative research design with case studies of such firms. Before describing the design a brief literature review positions this study in the internationalisation literature. A subsequent section of this paper then introduces the findings derived from case and cross-case analyses. We conclude by reflecting on how these findings differ from extant literature and discuss if there is much ground to suggest that Chinese privately-owned enterprises' internationalisation is fundamentally different from our current understanding of internationalisation behaviours.

2. PERSPECTIVES ON INTERNATIONALISATION

Welch and Luostarinen (1988) define internationalisation as the process through which a firm increases its international involvement in overseas operations. Coviello and McAuley (1999) classify four major internationalisation models and theories as (a) *economic perspectives*, which recognise market imperfections (Hymer, 1960; Kindleberger, 1969); focus on optimisation of transaction costs by making internalisation decisions (Buckley & Casson, 1976); and provide comparisons of different entry modes (Hennart, 1982); another type in this class, the eclectic paradigm (Dunning, 1988), combines transaction cost, location theory and resource-based factors to derive at an explanation of firm internationalisation; (b) *behavioural schools* in which internationalisation is seen as evolutionary process (Melin, 1992), through which the firm iterates through stages of knowledge acquisition leading to increasing market commitments (Johanson & Vahlne, 1977; Andersen, 1993), this model is also known as Uppsala School (U-model) of internationalisation; branching out from the stages model of internationalisation is the network approach, which draws on social exchange and resource-dependence theory (Johanson & Mattson, 1988), advocating to expand the unit of analysis from the firm to the wider network a firm is embedded in; (c) a *process-based perspective* includes the view that inward and outward operations need to be considered, therefore acknowledging that internationalisation is not always a one way street (Welch & Luostarinen, 1988). This approach implies also that internationalisation is affected by a firm's structure, the human resources it applies, the capacity it has to organise and the products which are offered (cf. *POM model*: product, operation and market, Welch & Luostarinen, 1988); and (d) a *holistic and integrative view* of internationalisation, defined by Beamish (1990, p. 77) as '…*the process by which firms both increase their awareness of the direct and indirect influence of international transactions on their future, and establish and conduct transactions with other countries*'. This view allows understanding of internationalisation as both, determined by economic rationales and a behavioural process that develops over time. It also considers and integrates a relational perspective which may affect the firm's internationalisation path.

In addition to these theoretical approaches to explain internationalisation of firms a fast growing branch of literature is developing and expanding around the phenomenon of young, rapidly internationalising small and medium-sized enterprises (SMEs). While many previous theories, often implicitly, assumed that small firms foremost engage in export activities, observations of firms' internationalisation patterns (Rennie, 1993) have shown that many SMEs do not necessarily follow a prescribed behavioural pattern (cf. Johanson & Wiedersheim-Paul, 1975).

Various authors discuss phenomena which indicate jumps in developmental phases (Buckley, 1982; Lindqvist, 1991; Nordstrom, 1991; Chang & Grub, 1992). These observations confirmed that the concept of psychic distance (see: Grady & Land, 1996), the assumption that firms would first enter geographically close and institutionally similar markets, needs to be revisited. A new school of thought started to emerge and reached considerable momentum with the first conceptualisation by Oviatt and McDougall (1994). This approach to understand the phenomenon of SME internationalisation has since, among other labels, been known as International New Ventures (INV). Oviatt and McDougall (1994) combined ideas from the resource-based theory, proposing that early internationalising SMEs must possess unique and valuable resources; transaction cost economics, indicating that firms, during their establishment, internalise only some but critical transactions, while relying on alternative ways of control via relational governance structures and networks; and they suggested that these INVs generate substantial foreign geographic location advantages, all of that very early after the firm's inception. Moen and Servais (2002) also found that similar behaviour as that displayed by INVs is seen in long established firms which suddenly start their internationalisation. In their sample they found no relationship between a firm's age and their export intensity, global orientation, distribution, psychic distance or the number of markets served (Moen & Servais, 2002).

Looking at developments over the last four decades the internationalisation of SMEs has been strongly influenced by changes in the extra-institutional environment. Autio (2005) summarised changes concerning (a) the improved flow of information between markets, reducing psychic distance and promoting greater economic integration between markets; (b) vastly increased efficiencies in transportation and communication technologies facilitating better control and coordination across different markets; (c) a large and growing stock of international managerial experience, which is more mobile and can quickly contribute to a firm's resource endowment; and (d) the development of organisational innovations which provide alternative governance mechanisms that can be employed in overseas markets.

These changes in the macro environment have contributed to a strong interconnection between markets and actors, given rise to more open global markets and have facilitated a general reduction in perceived uncertainty concerning foreign operations. In addition, these changes have made possible the application of different more direct governance mechanisms that allow the firm to control overseas operations without the need to commit to full ownership, as what used to be the internalisation advantage which had been previously almost exclusive to MNCs (cf. Buckley & Casson, 1976).

All these factors taken into account a firm's internationalisation can be understood as not determined by many of the limitations, which have been strong deterministic factors in the past which contributed their share in prohibiting SMEs' internationalisation. For instance, the assumption that small firms have an inherent *liability of newness* (Stinchcombe, 1965) has been reconsidered in some industries and is now in some cases interpreted as *learning advantage of newness* (Autio, et al. 2000). Being young has been correlated with a higher propensity to internationalise which can be explained via a reduction of limitations which may be caused by routinisation (Nelson & Winter, 2002); and because inexperience of firms can be overcome effectively by a bigger and more flexible pool of internationally experienced human resources. The disadvantages associated with being *small* (cf. Zahra, 2005) have been eroding through different developments, for instance on capital markets (i.e. venture capital and public funding schemes) and through new forms of cooperation models which in sum have reduced the correlation between firm size and effective resource endowments. In addition, the *liability of foreignness* (Zahra, 2005) has been reduced due to combinations of factors described above and the fact that today markets are more open than ever to international trade and investment, which also means that firm's do not necessarily need to be perceived as foreign, as a matter of fact very often are multinational in many different dimensions.

In sum, the brief review of extant schools of thoughts and discussion of changes in the overall system in which internationalisation takes place has shown that internationalisation behaviour is multidimensional. Many developments that occurred concurrently and interactively shape the behaviour of internationalisation. That behaviour can take a multiplicity of different forms which may all lead to successful internationalisation of the firm. As such the assumption that there is a fundamentally '*Western*' or '*Eastern*' way of going about it appears unlikely. Instead it could be more reasonable to suggest that finding similar patterns of internationalisation within industries or clusters of countries (i.e. small open economies) is more likely than to distinguish between '*Eastern*' and '*Western*' ways of going about internationalisation. This seems even more appropriate in the Chinese context, when POEs are investigated, which are entrepreneurial firms that are not under governmental control, as it is the case with SOEs or COEs.

In an approach to learn more about internationalisation of small and medium-sized firms in China and to contribute to this discussion we conducted an exploratory study. We find this important and interesting because Chinese POEs' are facing many institutional-, industrial-, firm- and human resource limitations while at the same time being placed inside one of the world's biggest and fastest growing markets. We investigate different firms' internationalisation in order to learn more about their motivations to go abroad, the factors that affected their decisions and the patterns this behaviour draws. From that we hope to contribute to the development of internationalisation theory.

3. METHODOLOGY, DATA AND ANALYSIS

With the purpose of this research project in mind we decided to use semi-structured interviews with owner-managers or managers of six internationally active small and medium-size enterprises from Guangdong, Fujian and Zhejiang Provinces in China. These provinces were selected because they belong to the fastest growing, most dynamic and internationally most active economic areas in the country, with GDP growth exceeding China's national average. The six sampled POEs belong to manufacturing industries, one being active in the telecommunications networks industry, two from the electronics industry, one from the metering industry, besides two firms which are classified as textile firms. All firms are classified as SMEs according to the limits set by the Chinese government, with less than 3000 employees, sales revenues of less than RMB 300 million and assets not exceeding RMB 400 million. Each firm's foundation was after the 1978 reforms and before the end of the millennium, which satisfies the condition we set for a sufficient timeframe during which different changes within and outside the firm take effect and shape the process of internationalisation, which commenced for all investigated firms in the 1990ies.

The qualitative methodology accommodates the exploratory character of this study, targeting to contribute to theory building rather than to test extant theory. Another strong factor leading to this choice is the complex nature (cf. Wright & Crimp, 2000) of our research questions, focusing on motives, which involve human subjectivity, and investigate their interactions with other factors that lead to their internationalisation patterns. In addition, like many transition economies, China differs from most developed markets in that institutional environments rely to some extent more on informal mechanisms (cf. Peng, 2000) to overcome formal institutional shortcomings. Informal institutions cannot be assumed as such because they often are hidden and part of individuals' behaviours. A qualitative research design may be able to indicate such patterns context-specifically and holistically (Patton, 2002) or may underline the importance of idiosyncrasies that have affected firms' internationalisation paths.

The case study method applied used semi-structured interviews to gather data. The interviews were conducted in Mandarin language. Open-ended questions were chosen in order to allow respondents to use their own words and expressions when describing their decisions and developments. In order to assure construct validity and to avoid '*bias, poor recall and poor* *inaccurate articulation*' (Yin, 1989, p. 91) data triangulation on different levels of analysis were used (cf. Denzin, 1970), involving news reports and media publications, websites and internal documents provided by the interviewees. Internal validity, to assure accuracy of findings (see: Cohen et al, 2004), was controlled for by developing open-ended questions in conjunction with the research purpose; by conducting pilot case studies to test the clarity of questions and to improve consistency and soundness of the research design; by transcribing recorded interview data shortly after each interview and by seeking respondent validation to control for misinterpretations; and by triangulating sources to address issues of credibility. External validity to produce generalisations has been taken into consideration. Rich descriptions of the cases have been produced in order to determine comparability and transferability (cf. Yin, 1989, p.21). Reduction of case selection bias has been achieved by conducting multiple case studies and by analysing each case individually and across, so that common patterns could emerge and in order to avoid chance association (Eisenhardt, 1991). No prior number of cases has been set, in accordance with Eisenhardt (1989, p. 545), resulting in six case studies in a range of different industries, which resulted in a satisfactory degree of theoretical saturation for the purpose of this study. This number and approach satisfied the replication logic as prescribed by Yin (1989). Further, the results of this study's case- and cross-case analysis are formulated in form of propositions and conceptualisations (compare Punch, 2005), which can be transferred thus facilitate theory testing and further generalisation. This analytic generalisation helps with the purpose of this study '*to generalise a particular set of results to broader theory*' (Yin, 1989, p.44). Reliability has been assured by applying the same procedures and interview protocol for all cases, as recommended by Yin (1989), therefore a high degree of accuracy and comprehensiveness can be assumed (Bogdan & Bilken, 1998). The POEs selected fulfilled the predetermined conditions of being independent, founded after implementation of the 'open-door policy' in 1979, privately-owned, small and medium-sized with less than 3000 employees according to the Chinese definition of SME, and internationally active. The interviews, with managers who are principally responsible for international operations have been made possible through referral by officers at the Yuhang Municipal People's Government and Guangdong Technology Venture Capital Group Co. Ltd. The interviews lasted between one and two hours.

Thematic data analysis proceeded as suggested by Miles and Huberman (1994). First, each case was treated separately, triangulating interview data with secondary data obtained, which was then sent for confirmation to interviewees, as discussed above. After securing respondent validation each case was translated from Mandarin to English. Each case was coded according to the following dimensions: (a) internationalisation motives; (b) influence factors for international activities; (c) nature of international activities; (d) internationalisation extent; and (e) internationalisation process. This procedure helped to reduce data volume and serve as input for cross-data analysis (cf. Eisenhardt, 1989; Yin, 1989) in order to identify common themes and complex relationships between variables. The analysis that took place paid special attention to generate sufficient generalisability through reduction and to keep theory simple, while at the same time avoiding idiosyncrasy. As a result we obtained propositions regarding the internationalisation of Chinese POEs which can be developed into testable hypotheses. The next part of this paper introduces the findings and analyses.

4. CASE COMPANIES, ANALYSES AND FINDINGS

The subsequent section introduces each case company briefly and is highlighting the most noticeable findings which were derived from within-case analyses. After that a cross-case analysis is comparing different factors that have contributed to each of the case companies' international development.

4.1 Introduction of Case Companies

Company A is operating in the telecommunication networks industry. The firm was founded in the Fujian province in the late 1980ies with less than 30 employees distributing foreign telecommunication networks products to its domestic market. During the early 1990ies the firm started developing and producing its own products with a strong mission commitment to technological excellence and customer service.

During 1996 the firm started outward internationalisation through exporting, which was triggered on one side by an intensifying domestic competition (i.e. focus on market share, price cutting, reductions in margins), while on the other side international markets were interpreted by the decision makers as being more focused on technological advancement and quality rather than price. These pressures, the need for profitability and mission-fit, led the firm to expand internationally. This development was positively reinforced by the Chinese government's '*go-out'* policy, which gave *Company A* access to cheaper loans that were critical for committing to the rapid internationalisation that followed over the next decade.

The internationalisation strategy of *Company A* focused initially on markets which were technologically underdeveloped in terms of telecommunication, setting up its first foreign subsidiary in 2001. In order to maintain its learning in terms of managing international operations and to keep abreast with rapid technological changes in this fast globalising industry the company entered international R&D joint ventures with leading industry players worldwide and worked closely with consulting firms specialising in the industry to develop its production operations, management processes, marketing activities and branding to bring it to international standards. *Company A* further entered numerous partnerships in diverse forms with customers and suppliers in order to realise its own mission of high quality, excellent service and low operating cost. As a result the firm has recently exceeded to employ 3000 people in China in addition to around 1000 overseas, selling products and services to over 100 countries, where the firm has branch offices. 12 R&D centres produce, embedded in different partnerships, new opportunities to maintain its fast growth (i.e. increasing sales revenues by 70% in 2007), making international revenues surpass its domestic results.

Company B, an electronics company, from the Guangdong province was founded in 1981 in order to produce video cassette recorders. In the 1990ies, with technological developments eradicating opportunities for this technology the firm's management decided to diversify the company in six divisions, mainly focusing on consumer electronics equipment, and to pursue an international strategy focussing on markets in Eastern Europe, Middle East, Africa and North America, with two wholly-owned subsidiaries set up in the US and Singapore.

The firm was motivated to go international by the recognition that this industry is rapidly becoming global. It acknowledged that the firm's very low production costs can be leveraged through overseas partnerships in order to achieve the long-term goal to overcome its limitations of small scale, underdeveloped marketing networks and capabilities to satisfy ever more sophisticated international customer needs. Externally, the Chinese government's decision to postpone the introduction of a third generation (3G) mobile network, which was motivated by the desire to develop an own Chinese standard, further pushed the firm overseas due to investments into the 3G standard. Therefore *Company B* entered markets which adopted this new standard.

The drive to develop an internationally recognised brand and at the same time not loosing sight of the domestic market led *Company B* to achieve sales of RMB 213 million and total assets of RMB 305 million by 2006. The firm's size exceeds 2000 employees in China with about 200 expatriates working in 50 permanent overseas representations.

Company C, an electronics company, was established in 1997 in the Zhjiang province. The firm was founded by an entrepreneur who was prior to founding the firm working as expatriate for another Chinese firm. During his international assignments he acquired foreign market experience and built relationships to important contacts. With the starting capital coming from savings and family the firm has been firmly focused on international markets and a strategy of being original equipment manufacturer right from inception.

Factors, like the need for economies of scale that can only come, at that time, from international markets, a very strong domestic competition occupying the same competitive space and opportunities derived from the founder's previous international exposure and experience, motivated the firm to focus on exporting to international markets. Especially latter factor strongly influenced the market selection decisions leading the main markets to be in Europe and the US.

Currently *Company C* exports 90% of its production overseas. 370 employees in China and six expatriates process an extensive product line with over 1000 product items generating over RMB 50 million annually.

Company D is in the business of developing and producing various measuring and metering equipment. Established in 1982 in the Guangdong Province as traditional manufacturer of water meters it has transformed since into a high-tech powerhouse, possessing the largest share of the domestic market in sectors of water- and energy meters and power automation systems.

The company commenced international operations in 1999 in order to maintain its previously high domestic growth rates that came under threat due to severe price competition on a domestic market which trades highly standardised low-tech products. In order to maintain its position and margins and in order to learn from international competition internationalisation has been seen as strategy that not only helps to satisfy the financial demands but also to transform its technological base that can be transferred back to its domestic market. Further, the decision makers acknowledged a strong trend in their industry shifting their attention to increasing globalising competition, which could be pre-emptied with a proactive strategy that generates a stronger base to maintain and build on its domestic market leadership. In addition the '*go-out*' policy was seen as encouragement to take up internationalisation as way to expand business.

Company D chose foreign direct investments as best way to quickly gain knowledge about markets and processes while increasing its embeddedness in local markets, hiring local managers and employees. Markets have been selected which have a large and sophisticated consumption base for its products, a high standard of living, and are characterised as generally stable and supportive for business. This list of priorities led the firm first to start sales operations in Eastern European countries, later adding production and R&D centres in Thailand, Argentina, Uzbekistan and Canada. While in the first stages FDI has been the main strategy to facilitate especially rapid learning, the firm is moving toward international joint ventures and alliances as entry modes in subsequent phases in order to speed up further internationalisation and to benefit from knowledge that can be transferred from their partners.

Currently, *Company D* is a 500-employee company of which around 10% are located in overseas subsidiaries generating revenues of about RMB 176 million.

Company E, located in Zhejiang Province, specialises in manufacturing upholstery fabrics and finished textile products since the firm was set up in 1986.

The firm started its international operations in 1995 motivated strongly by observations of other players' behaviour in their industry pursuing internationalisation strategies. Adopting the similar objectives the company has increased sales to great extent while maintaining firm size, measured in employment, remained constant during this process. This could be achieved by upgrading manufacturing technologies, importing advanced equipment from Europe, and has, due to international customers' demands, enhanced the innovativeness. While the firm has until recently focused on international growth through exporting it recently started to diversify this strategy by including cooperative modes of operating overseas. This lead to further improvements in management, production processes, productivity and quality, and supports the strategy of the firm to build an international brand.

Today *Company E*, with around 300 employees, sees its business overseas going well with its products selling in the US, Europe, the Middle East and Australia but its revenue growth of currently around RMB 50 million is significantly exposed to political and economic factors such as international trade barriers, exchange rate fluctuations, export tax rebate policies by the Chinese government and general economic cycles, especially on some of their major markets.

Company F was founded in 1995 in Zhejiang Province where its textile business is headquartered. The firm positions its textile ornamental fabrics and finished products and accessories on the high-end.

Four years after establishing the company the firm started its internationalisation using various export modes. Internationalisation has then been perceived to ease the growing domestic competition which put strenuous price pressures and margins under threats. Expanding its sales markets overseas, mainly aided by its own overseas sales agents, and investing in production processes to obtain higher quality grades, in order to facilitate a premium strategy, has been seen as way to overcome many of these pressures.

Currently, *Company F* employs about 550 employees, including 50 personnel overseas, is generating sales revenues of more than RMB 100 million with its main export markets in Europe, US, the Middle East, South Africa and South East Asia.

4.2 Results of Within-case Analysis

Table 1 is a summary of factors which is the outcome of detailed within-case analyses. For the analysis, in accordance with the research questions of this paper, the following factors have been taken into consideration, in order to later propose how the behaviour of Chinese POEs is in accordance with extant internationalisation theories: (a) Strategic posture towards internationalisation, either it being a proactive or reactive move to competition; (b) Internationalisation Motives; (c) Critical factors determining internationalisation; (d) Criteria for international market selection; (e) Perceived importance of psychic distance; (f) Entry mode choices; (g) Establishment chain compliance, as suggested by i.e. Johanson & Vahlne (1977); (h) Speed of internationalisation, registering weather a case can be classified a rapidly internationalising firm or not (Moen & Servais, 2002; Oviatt & McDougall, 1994); (i) Internationalisation scope, identifying weather internationalisation is benefiting from integrating different factors at different locations; (j) Internationalisation extent, classifying the relative importance of foreign activities for the firm; (k) Resource-base orientation to identify the core location of the business' value creation; (l) Control mechanisms applied; and (m) Means of uncertainty avoidance used by each case company.

Table 1. Results of Within-case Analysis

	A	**B**	**C**	**D**	**E**	**F**
Strategic Intl' Posture	***Pro- and reactive***	***Reactive***	***Proactive***	***Pro- and Reactive***	***Reactive***	***Reactive***
Motives for Intl'	Avoiding competition; growth; profits; intl' opportunities; exploitation of production advantages; access to soft loans	Market space expansion; wealth considerations; technological knowledge acquisition; brand building; survival	Serving foreign customers derived from founder's previous exposure; bandwagon	Avoiding competition; profit; technological knowledge acquisition; protecting domestic market position; bandwagon; survival	Reaction to foreign orders; bandwagon	Seek intl' opportunities to sustain growth
Determining Factors for Intl'	Home country policies; host country conditions; industry structure; firm characteristics	Home country policies; host country policies; industry structure; firm characteristics	Personal networks; industry opportunities; entrepreneurial drive	Global industry trend; home country policies and foreign factor conditions; firm	Global industry trend; home and host country conditions	Foreign market characteristics and industry structure

				characteristics		
Intl' Market Selection	First developing, then developed markets	Developed markets	Locations of personal connections	Stable economies; sophisticated demand and low cost of operation	Markets with high consumption power	Developed markets with high consumption power
Compliance with Psychic Distance Theory	Yes	No	No	No	No	No
Entry Modes	Exports; representations; R&D centres; partnerships; WOS	Exports; partnerships; WOS	Exports and sourcing from OEMs	FDI, IJV, alliances	Exports	Exports
Intl' Establishment Chain	Yes	Yes	No	No	Yes	Yes
Intl' Speed	Rapid	Rapid	Rapid	Rapid	Slow	Slow
Intl' Scope	Large	Large	Small	Large	Large	Large
Intl' Extent	Large	Moderate	Large	N/A	N/A	N/A
Resource-base Orientation	Internationally dispersed	Home-base	Home-base	Internationally dispersed	Home-base	Home-base
Control Mechanism	Trade marks; brand name; patents and copyrights	Internalising valuable resources	Internalising valuable resources	Following incremental intl' logic	Following incremental intl' logic	Following incremental intl' logic
Uncertainty Reduction	Various means	Mainly through management learning	Personal networks, trust; previous experience	Replicating other firms' behaviours	Replicating other firms' behaviours	Through international exposure and management learning

4.3 Cross-case Analysis and Discussion

To fulfil the objectives of this study, this section will use a cross-case analysis approach to detect common international behaviours by the interviewed Chinese POEs regarding their: (a) Motives for internationalisation; (b) decisive factors that determine internationalisation decisions; (c) their approaches for realising internationalisation objectives; (d) their internationalisation intensity; (e) international resource-base orientation; and (f) the mechanisms used for reducing uncertainty.

4.3.1 Motives for Internationalisation

According to the U-model, internationalisation is the result of firms' growth. Firms are passive toward internationalisation, which is usually initiated through unsolicited export orders which cause a firm to commence with international activities. In contrast, INVs actively seek opportunities in overseas markets. By combining resources that are generated in different markets, INVs may be able to create distinct values and achieve sustainable competitive advantages. Hence, internationalisation is means to achieve growth (Autio, 2005). Looking at the rational behind Chinese POEs' internationalisation decisions, it is clear that some of them were pushed to internationalize as the U-model predicts (Companies B, E and F), some were pulled to utilise foreign market opportunities as INVs do (company C), and some were influenced by both forces to internationalise (company A and D). This is manifested in their different motives toward internationalisation.

Similar to their Western counterparts (Hollensen, 2007), results from the interviews showed that the rationales behind these firms' internationalisation include the strong desire to expand market space (Company B), to make profit (Companies A, B and D), to grow (Companies A and D), to utilise foreign market opportunities (Companies A, C, and F), to exploit foreign market offerings (Companies A, B and D), and to sustain economies of scale (Company A). Chinese firms are recognised as late comers with a strong liability of foreignness in the international arena. They have outdated technologies, weaknesses in R&D, limited marketing capabilities, less sophisticated management skills and a lack of internationally recognised brand names (Nolan, 2001).

In line with previous literature, this study confirms that internationalisation is a strategy for Chinese POEs to improve their capabilities (Companies B and D), and build an international brand name (Company B). From these perspectives, Chinese POEs perceive internationalisation as necessary for growth, which is coherent with suggestions made by the INV theory. Besides these, managerial urge paired with opportunities derived from founders' previous international exposure, international operations also stimulate Chinese POEs to engage in international operations (Company C). This is also consistent with the INVs theory, which notes the critical role that entrepreneurs play in driving international decisions. What is more, part of their reasons to go international is to exploit Chinese favourable policies toward internationalisation (Companies A and D). This again reflects on some Chinese POEs' internationalisation posture to be a proactive behaviour.

In the mean time, the decisions to internationalise are passive for some Chinese POEs. As our findings indicate internationalisation decisions are a response to unsolicited foreign orders (Company E). A bandwagon effect is another trigger that prompts Chinese POEs to engage in international operations (Companies C, D and E). They feel the need copy competitors' behaviours, among them, to internationalise when they detect their competitors have overseas operations. Meanwhile, Chinese POEs' internationalisation decisions were also associated with the goals to avoid severe competition on the home market (Companies A and D), and to avoid unfavourable policies in the domestic market (Company B). Interestingly, internationalisation is even viewed as a strategy to survive for some Chinese POEs such as Companies B and D. Part of their rationales is that they opt to go international in order to protect their profit margins (Companies A and F) and domestic market positions (Companies D and F). For these firms, internationalisation is either viewed as a way to sustain their growth or to catch up with other firms.

In general, Chinese POEs are motivated to go offshore by various reasons. A firm can have both passive and proactive attitudes toward internationalisation simultaneously, which is different from the U-model's prediction that firms are only passive toward internationalisation. Alternatively, the INVs theory's argument that firms are proactively seeking foreign markets applies to some Chinese POEs. Therefore we sum up that also Chinese POEs' foreign expansion may be either a proactive or reactive behaviour with a variety of driving motives, which can originate from decision makers orientations or experiences, the nature and structure of the firm's industry and distinctive characteristics inherent in each firm.

4.3.2 Decisive Factors Supporting the Internationalisation Decision

A variety of factors determining a firm's internationalisation decisions has been identified in the literature including the impact of the macro global environment, home country conditions, host country conditions, industrial attributes, the dynamism of the firm base, and the quality of entrepreneurship. Consistent with extant literature, our interview data reveals that the fall of trade barriers in the global arena has been a strong trigger for Chinese POEs to internationalise (Company D). As more and more foreign firms have businesses in China, Chinese enterprises are forced to compete with them in the domestic market. Their experience of competing with foreign companies in the domestic market motivates them to compete with them internationally. Learning how to go about it also largely reduces their perceived uncertainty and reduces the risks of conducting business abroad.

In terms of home country conditions, the interviewees confirmed that public policy initiatives and production costs are hugely influential factors that support the decision to go abroad. In the 1990s, the Chinese government developed the '*go-out*' policy to encourage domestic enterprises to expand their operations abroad (Wu, 2005). Chinese POEs are stimulated to expand offshore and to exploit the advantages of incentives such as tax benefits, subsidies and soft bank loans (Child and Yan, 2001), as some cases have shown (Companies A and D). On the other hand, unfavourable policies also force indigenous firms to seek market spaces elsewhere. State policies of internal market controls, exchange rate controls, distortion of sector development and constraints on domestic expansion have to large extent influenced Chinese enterprises' internationalisation decisions and subsequently performance (Young et al., 1996). To avoid the impact of such policies, some firms choose to go overseas (Companies B and E). Besides the impact of public polices, Chinese POEs' internationalisation decisions are also strongly determined by the country's resource endowment. Cheap labour resources and low production costs grant Chinese enterprises significant cost advantages to compete in the global market, which has a positive impact on their internationalisation decisions.

Extant literature has confirmed in numerous studies that relationships between host country characteristics and a firm's foreign market selection exist. In line with such literature, our data confirms that Chinese POEs' market selection is determined by location attractiveness of host markets especially including factors such as market potential, the stability of political and economic environments and the operational costs of conducting business.

Findings from our interviews demonstrate that industrial attributes play a crucial role in Chinese POEs' decisions to engage in international activities. In general, Chinese POEs' internationalisation is influenced by intensive competition at home and often triggered by low profit margins (Companies A, D and F). The bandwagon effect was also acknowledged by company C, D and E. These firms noticed their competitors have international operations, and they felt the need to follow their movement and hence to protect their positions in the industry. This confirms earlier findings by Knickerbocker (1973) and is in line with Ito and Rose's (2002) oligopolistic reaction theory.

The impact of firms' characteristics on their internationalisation has been largely recognised. The literature suggests that a firm's possession of unique resources influences its internationalisation tendency, speed and development (Hymer 1960; Dunning 1988; Oviatt and McDougall 1994; Bloodgood et al. 1996; Rialp et al. 2005). The interviews confirmed these findings by demonstrating that Chinese POEs' internationalisation process is related to their market offerings. In general, their market offerings determine their foreign market selection. Compared to internationally leading firms, Company A's market offerings have relatively unsophisticated technologies, but retrieve advantages in production cost. This produced initially some constrains in terms of foreign market selection. In contrast, Company B's sophisticated 3G mobile phone technology has been limited to countries that had already launched the 3G network.

Besides market offerings, our data also suggests that learning is a significant factor, which is positively related to a firm's internationalisation decision. Company D's enthusiasm to acquire advanced technologies facilitated it to view their industry as global and to enter foreign markets.

This motive also led to large resource commitments abroad using FDI early on in the internationalisation process, to recruit local human resources in order to accelerate their learning and to enter countries that have favourable political and economic environments.

INV literature has emphasised the impact of an entrepreneur on the firm's international development. Consistent with international entrepreneurship literature, the example of Company C highlights how the entrepreneur determined the firm's international involvement. His previous international experience, his skills and competencies in the electronic industry and valuable connections with foreign companies largely reduced his perceived uncertainty and risks about international operations. In the mean time, his high expectations of firm growth in the international arena generated the firm's rapid internationalisation.

To sum up, this study provides evidence showing that Chinese POEs' international operations are determined by numerous variables, which supports previous findings in different paths of the internationalisation literature. The global environment, home- and host country conditions, industry attributes, firm factors, and entrepreneurial characteristics can all play a critical role in Chinese POEs' internationalisation process. These factors leading to a positive internationalisation decision, the data suggests, are furthermore highly influential when determining international performance. Out of these factors, location attractiveness in the host countries and the industrial attributes including intensity of competition, profit margins and the role-defining behaviour competitors have shown to be the largest impact on Chinese POEs' internationalisation decisions. Besides these, the Chinese governments' policies targeted at stimulating internationalisation and the nature of China's past and current resource endowments have shown to play critical roles in this decision.

4.3.3 Approaches for Realising Internationalisation Objectives

Internationalisation comprises of a variety of market entry mode options including export, licensing, contract manufacturing, strategic alliance modes, franchising, international joint ventures and wholly-owned subsidiary. Different options provide for different combinations of risk, control, cost, resource commitments and expected returns, besides longer-term strategic benefits that can be gained. According to the U-model, export modes facilitate initial entry for firms when starting their international operations. As they lack foreign market knowledge, it is rational for them to select the entry mode that involves the least risk and requires the least amount of resources. After the firm gains sufficient market knowledge and experience, it increases its degree of internationalisation through committing more resources to the market. Our data provides evidence that for Chinese POEs export has been the most common practice. Out of the six studied enterprises, five of them selected export as their initial mode for international market entry. From our sample only Company D started its international activities by directly investing in foreign subsidies.

The Uppsala School further sees the establishing of subsidiaries as the next preferred entry mode, which is the behaviour displayed by Companies A, B and D). This strategy involves more risk and requires much more resource commitment. In the meantime, it allows the firm to have more control over its foreign operations. The Asia Pacific Foundation of Canada and the China Council for the Promotion of International Trade (2006) jointly conducted an online survey to understand Chinese companies' outward investment intentions in 2006. Their findings concluded that outward direct investment is a long-term development strategy for Chinese firms to learn advanced management methods and to seek new markets. Similarly, our study identifies behaviour showing that some Chinese POEs are directly investing abroad with the aim to acquire key inputs (compare: Buckley et al., 2006). Through FDI, they are able to achieve long-term growth by keeping abreast with the most advanced technologies in the world, learning new management approaches and skills from other internationally leading firms and facilitate the development of brands (Companies A, B and D).

The results of the survey conducted by the Asia Pacific Foundation of Canada and the China Council for the Promotion of International Trade (2006) also showed that establishing sales offices and setting up equity joint ventures with local firms are the most common FDI practices by Chinese companies. In contrast to their findings, our data indicates little preference for these entry modes (compare table 1).

4.3.4 Internationalisation Intensity

Three dimensions have been applied to measure a firm's internationalisation intensity, including internationalisation speed, scope and extent (Jose & Alejandro, 2005). Internationalisation speed measures the rate at which a firm enters new markets, internationalisation scope refers to geographic diversification, and internationalisation extent looks at the proportion of the revenue that a firm generates from its overseas activities. A firm's internationalisation intensity is positively related to its internationalisation speed, scope and extent. Applying these three dimensions to measure the interviewed Chinese POEs' internationalisation intensity, the result is mixed. Company A's internationalisation intensity is rather high. Within 12 years' time, it has business in over 100 countries with various international activities as well as a large proportion of revenue generated from overseas markets. Company B could also be defined as having a high internationalisation degree. Over the last decade it has been aggressively exploiting foreign market opportunities. It internationalised rapidly by skipping stages in the establishment chain. Given that less than a quarter of its sales turnover is from overseas markets, company B's internationalisation extend is relatively small. For Company C internationalisation can be described as early and rapid. It started its international operations from inception of the business. At present, 90% of its revenue is generated from overseas. Besides having high internationalisation speed and large internationalisation extent, the company has limited internationalisation scope. Company D has gained its international experience over 9 years. The company has expanded its sales operations to over 40 countries and has been setting up production bases and R&D centres in a number of countries. It skipped stages by selecting FDI as its initial international entry mode. This behaviour suggests that the company has high internationalisation speed and scope. Compared to these companies, Companies E and F seem to have a slower pace of internationalisation. These firms are both geographically highly diversified but they remain exporters even though they have already many years of international experience

In sum, the studied Chinese POEs tend to internationalise with rapid pace. Most of them follow the prescribed establishment chain of internationalisation as most of them started their internationalisation activities with export and engage in higher risk and control modes only after gaining international experience and knowledge. Our sample firms also tend to be geographically highly diversified in term of selecting foreign markets. Many of them have invested in diversified locations to leverage various location-based advantages. In this vein, the psychic distance theory has limited utility when it is applied to explain these firms' foreign market selection. The criteria they apply to evaluate foreign markets are to larger extent focusing on market potential and market conditions, rather than geographical and socio-cultural proximity. As a result, it is reasonable to conclude that neither the U-model nor the INVs theory could fully explain Chinese POEs' international intensity. While neither is capable to provide us with a formula that explains all firms' behaviour a combination of the two models may work to understand Chinese POEs' internationalisation.

4.3.5 Resource Base Orientation

According to the U-model, a firm is home-base orientated when all its valuable resources are concentrated on the domestic market, while INVs theory states that a firm mobilises unique resources from different countries to create sustainable competitive advantages (Autio, 2005). Looking at the studied Chinese POEs' resources-base orientation, the result shows that some of them are home-base orientated because theie critical resources are concentrated on the home market before their products or technologies are dispersed to foreign markets (Companies B, C, E and F). The remaining firms from our sample are more internationally orientated as they have

R&D centres around the world creating new technologies, invest in wholly-owned foreign subsidiaries in order to acquire new knowledge (Companies B and D). However, when interpreting these findings, the industrial attributes, the firm's internationalisation objectives and home country factor endowments should be included. Firms in high-tech industries tend to be more internationally orientated as distinct resources they require may be internationally dispersed. Firms that have an aim to learn through international operations, meeting sophisticated demand and competing appear also to be more internationally orientated. For those firms that are in traditional industries, such as textiles industry, their products are more labour or capital intensive and involve less internationally immobile resources that need to be integrated. It is more profitable for these firms to have all activates conducted in China in order to take advantage of cheap production costs at home.

4.3.6 Means to Uncertainty Reduction

There are various approaches that the interviewed Chinese POEs have applied to reduce perceived uncertainty regarding international operations. The current cases demonstrate that Chinese POEs reduce their uncertainty mainly through management learning (Companies A, B and F), which supports the U-model (Johanson & Vahlne, 1977). For the remaining cases there is evidence that Chinese POEs may reduce uncertainty through personal networks and entrepreneurs' previous international experience (Companies A and C), which is behaviour described by international entrepreneurship and INV literature. In addition, some of the studied Chinese POEs have reduced uncertainty mimicking their competitors' international behaviour (Company E) or through observational learning replicating the behaviour of foreign companies on their home market (Company D). Once again, the studied firms' approaches to reduce uncertainty regarding international business cannot be fully captured by the U-model or INV theory.

5. CONCLUSION

This paper reports on research to learn more about Chinese privately-owned enterprises (POEs) which took the decision to enter international markets instead of focussing on the domestic market. Taking such decision generates an interesting phenomenon because on one side such firms are in an institutional environment, which contains a number of obstacles that would make internationalisation an unlikely choice. On the other side one could assume huge opportunities can be found on the home market, which has been among the fastest growing economies over the last two decades, which should offer much less uncertainty-laden strategies for POEs to develop and grow their businesses. Considering the efforts, risks and alternatives of internationalisation as strategy for POEs led us to investigate the phenomenon through this exploratory project.

This paper's focus on POEs internationalisation is distinct from extant research on Chinese firms internationalisation which usually focus on the patterns displayed by large SOEs, COEs or international joint ventures (i.e. Buckley et al. 2007; Tseng & Mak, 1996). POEs being an entrepreneurial company type that was only enabled after 1978 has also quite distinct challenges in internationalising its operations. One of the questions which have been raised in that context concerned the assumption that Chinese firms have a distinct '*Eastern'* way to go about internationalising and therefore '*Western*' theories may not apply.

Challenging such distinctions we particularly focus on two streams of internationalisation theory which we compare in their power to explain Chinese POEs' behaviour: the U-model of internationalisation (i.e. Johanson & Vahlne, 1977) and the more recently emerging literature in international entrepreneurship (i.e. Oviatt & McDougall, 1994). Both sets of literature have their own merit and can be appropriately applied to SMEs. In the context of Chinese POEs both models have demonstrated their applicability in different ways and in some cases both theories needed to be integrated to explain why certain POEs chose to behave in a particular way.

Overall, we conclude that Chinese POEs behaviour is not particularly different from a '*Western*' way of engaging in internationalisation. More than that we feel that the explanatory power and the limitations which both approaches have shown are universal and could be found in different contexts.

Our interpretation of why we assume such universal phenomenon is that the world, in some industries more than in others, is becoming a global market. Macro economic changes over the last three decades have generated more open and increasingly integrating economies, increasing levels of mobility of internationally exposed and experienced human resources, better flows of information and increased possibilities for international coordination, vast increases in the efficiency of transportation, allowing international integration to be economically viable, and a growing pool of organisational innovativeness which provide firms with the ingredients to find 'their own way'. This is the general explanation why and how Chinese POEs go about internationalisation and our findings indicate how they reap the internationalisation advantages, something that has been previously almost exclusive to large MNEs (cf. Buckley & Casson, 1976).

More specifically the data we collected shows that instead of searching for an '*Eastern*' way of internationalisation we need to concentrate on industry specifics and try to understand the decision to go international. Chinese POEs in our sample have shown that a colourful variety of reasons for that move exist. Firms' display a remarkable entrepreneurial spirit, have strong desires to learn through international operations and improve their position on the home market by reaping host country benefits and transferring knowledge from collaboration partners in order to merge it with advantages found at home. Firms have indicated that internationalisation can be a move to survive in industries which are characterised by dense international competition at home or provides means to attain funding by utilising government policies. Chinese POEs also display what has been found elsewhere, when previous international experience and networks are merged with a will to succeed then 'born global' firms can be expected.

This study has also confirmed that the concept of psychic distance is loosing its relevance, probably affected by the macro changes discussed above. On the other hand we have seen that many Chinese POEs follow the logic of the establishment chain, deriving benefits of a careful incremental approach in which uncertainty perception and international commitment are reinforcing each other.

Nevertheless, our data indicates also that Chinese POEs tend to reach high international intensity in short time. A clear distinction concerning industries is apparent. The level of high tech involved in an industry appears to determine the international orientation of Chinese POEs. Our interpretation is that traditional industries are more labour and capital intensive and that Chinese POEs tend to find the home market to serve their needs better. This appears to be different for high tech firms, where mostly intangible resources that are internationally dispersed but in some way easily internationally integrated determine international success. Such firms tend to move to higher commitment modes of international operations faster applying management learning to reduce their uncertainties.

The findings in this paper suggest that both approaches, the U-model and international entrepreneurship, have explanatory power when it comes to explaining why and how Chinese privately-owned firms internationalise. Our data suggests that neither approach though could serve as universal explanation and that both are most functional when considered together. This though can be assumed to be a finding that would also apply to 'Western' small and medium-sized enterprises.

Further work with the data should help to generate distinct classes of Chinese POEs in order discuss how different factors and rationales explain the international expansion behaviour of each type. This will help in future research to develop testable hypotheses that generate mid-range theories of Chinese POEs' internationalisation, which in turn can then be compared to the behaviour of SMEs in other parts of the world.

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