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INTERNATIONALISATION OF CHINESE SMEs: THE PERCEPTION OF

DISADVANTAGES OF FOREIGNNESS

Gaston Fornes
University of Bristol (UK) and
ESIC Business and Marketing School (Spain)
10 Priory Road – BS8 1TU
Bristol – United Kingdom
g.fornes@bristol.ac.uk

Guillermo Cardoza
INCAE Business School (Costa Rica)
La Garita
Alajuela – Costa Rica
guillermo.cardoza@incae.edu

INTERNATIONALISATION OF CHINESE SMEs: THE PERCEPTION OF DISADVANTAGES OF FOREIGNNESS

Abstract

The paper aims at extending previous research on the specific barriers experienced by emerging markets-based SMEs expanding internationally and the necessary corporate resources and capabilities to support the first stages of their expansion. Framed within resource-based theory (RBV) and liability of foreignness perspectives, the study focuses on four main areas: limited knowledge of external markets, socio-cultural differences, unfamiliarity with foreign contexts and business practices, and limited local business contacts, reliable representatives, and control systems. The data was collected from more than 500 Chinese SMEs and then analysed using multivariate and stepwise regressions. The research results show that external factors, both at the domestic level and in host markets, ranging from local regulations and distribution facilities to cultural differences and exchange rates, are perceived to be critical for the performance of business expansion. The research provides deep insights on the barriers faced by SMEs from emerging economies when doing business abroad and especially to discriminate among its different sources of liabilities. The results also suggest that the RBV approach is insufficient to analyse the barriers associated with liabilities of foreignness, newness and outsidership.

Keywords: emerging markets, Chinese SMEs, international expansion, internationalisation, resource-based view, liability of foreignness, institutional transition.

1 Introduction

How do small and medium-size enterprises (SMEs) based in emerging markets (EM) leverage and manage their international expansion? Do their relatively weak capabilities, the scarcity of resources, and limited international experience condition their business plans and impact their expansion strategies to grow abroad? Answering these questions is relevant since from 2015 emerging markets and developing economies account for over 70 percent of global growth (IMF 2016). Within this, a growing number of SMEs from emerging economies are expanding overseas; this is of particular relevance in China, where SMEs account for 66 percent of the country's patent applications, 80 percent of its new products, and 68 percent of China's exports (which means around 10 percent of the world's exports) (The Economist 2009, WTO 2013, Deutsche Bank 2017). In fact, SMEs are essential for the Chinese economy since SMEs account for 97 percent of the total enterprises, 80 percent of urban employment, 60 percent of total GDP and also for 50 percent of tax revenue (People's Daily Online 2010), and according to a recent forecast, the number of SMEs in China will reach approximately 43 million in 2020 (Statista 2018).

In this context, the Chinese authorities and especially local governments have stated that the development and internationalisation of strong SMEs are crucial for the country's future economic development and competitiveness as they are one of the main sources of entrepreneurship, job opportunities, technology diffusion, and fiscal income. SMEs' international activities also allow continuous technological improvement, identification and adoption of international best practices, risk diversification, and wealth generation. For this reason, these authorities are actively pursuing the development and national and international expansion of SMEs (Ministry of Commerce of the People's Republic of China 2008c, b, a) based on their key role in entrepreneurship, job creation, technology diffusion, fiscal income, identification and adoption of international best practices, risk diversification, and wealth

generation (Cardoza 1997). Also, and probably more importantly, it is relevant because Chinese SMEs are growing and following the pattern seen in many MNCs: going from domestic expansion, to export, to foreign direct investment (FDI), eventually transforming themselves into global players (Boisot and Meyer 2008, Sauvant 2011, Cardoza et al. 2015).

Despite the significant contribution of SMEs to China's social and economic development (even before the market-oriented reforms in the 1980s) and the fact that more than 60% of the internationalised Chinese firms started export operations within a shorter period than their Western counterparts (around three years according to Naudé and Rossouw (2010)), most of the research on Chinese firms has been focused almost exclusively on multinational corporations (MNCs) (Deng 2011). Scarce attention has been devoted to understand how an important number of Chinese SMEs, experiencing restricted access to technology and financial resources and having fewer intangible resources (market information, brands, networks, access to distributions channels, etc.) than large corporations, have been able to expand successfully overseas (Bangara, Freeman, and Schroder 2012, Yamakawa, Peng, and Deeds 2008). As a consequence, there is the need to study the factors influencing the international expansion of Chinese SMEs. The subject remains relatively under-explored in the international business literature and, as such, this gap demands more attention (Cardoza and Fornes 2013, Deng 2011, Fornes and Mendez 2018, Alon et al. 2018, Ramamurti and Hillemann 2018).

In this context, this study aims at extending previous research on the specific barriers experienced by emerging markets-based SMEs expanding internationally and the necessary corporate resources and capabilities they need to overcome different types of liabilities during their expansion. To this end, this study is framed within the resource-based theory (RBV) and liability of foreignness (LoF) perspectives to analyse, from the point of view of resources and capabilities, the perceptions of barriers and liabilities that SMEs face in the process of international expansion. It focuses on exports, which is usually the first stage in international

expansion (Dunning 2003) when SMEs try to overcome different types of disadvantages and/or liabilities (Castanias and Helfat 2001). In doing so, RBV provides a bridge to understand and identify the critical resources and capabilities EMs-based SMEs are expected to have and deploy to build sustainable competitive advantage during their international expansion (Peng 2001). The premise is that poor complementary resources and/or capabilities prevent Chinese SMEs from overcoming liabilities in an efficient manner when expanding to foreign markets.

The article intends to contribute to the academic literature in several ways: (i) by testing theories and assumptions on SMEs' international expansion which were developed and validated for Western countries in the context of an emerging economy; (ii) by providing a unique setting to analyse the capabilities/resources that emerging-markets based SMEs have and/or lack to overcome liabilities and leverage their expansion overseas; (iii) by studying the relation between the perception of different types of disadvantages of foreignness (Bangara, Freeman, and Schroder 2012, Yamakawa, Peng, and Deeds 2008) associated with specific intangible resources such as knowledge/information about host markets, socio-cultural differences, institutional settings, unfamiliarity with host market business practices, access to local networks and resources, and the process of international expansion of SMEs from emerging economies; and (iv) by contributing to the development of more robust conceptual frameworks for managing the international expansion of Chinese SMEs. The study also expects to draw lessons from the Chinese experience that offer useful insights for policy-making in transition and emerging economies interested in supporting SMEs' expansion process.

The paper is organised as follows. The next section presents the conceptual framework, provides a general overview of the main scholarly contributions to theory of SMEs' international expansion, and introduces the hypotheses. Section 3 explains the sample, methodology, and research design. The paper concludes with a discussion of the results, their implications, and possible directions for future research.

2 Review of the Literature

Most previous works in this area, framed within the RBV (Penrose 1959, Barney 1991), have analysed the complementary resources and/or capabilities that firms deploy in their international expansion processes (Barney, Wright, and Ketchen 2001, Conner and Prahalad 1996), capabilities that firms already have and which cannot be transferred without high costs (Barney 1991). For example, one of the firm-specific complementary resources considered by RBV is the international experience (Barney, Wright, and Ketchen 2001) that is built and accumulated from dealing with clients, competitors, and suppliers overseas (Camison and Villar-Lopez 2010). This knowledge is unique to a particular company and therefore cannot be easily acquired, assimilated, replicated, or applied (Zheng and Qu 2015). As such, it can support the development of new resources and capabilities difficult to obtain by competitors due to the high cost of developing, acquiring, or using that knowledge. Moreover, organisational learning gained through previous internationalisation experiences can support the development of new capabilities that ultimately influence the firm's performance (Delios and Beamish 2001). However, the acquisition and internalisation of this knowledge and the absorption of these competencies require a careful designed learning strategy and commitment by the firm.

This organisational learning "enhances firms' understanding about culture, institutions, and market characteristics in the local markets" (Zheng and Qu 2015, p. 56) and as a consequence offers the ability to adapt to local customers' specific requirements (Cavusgil and Zou 1994, Calhoun 2002). Following this line of reasoning, companies that have not had enough time to acquire this knowledge (mainly those at an early stage of their international expansion) face liability of foreignness, liability of newness, liability of expansion, and liability of outsidership as they lack information, relationship partners, and complementary resources (Cuervo-Cazurra, Maloney, and Manrakhan 2007, Johanson and Vahlne 2009).

Several studies have shown that companies exporting and/or operating abroad without complementary resources and/or capabilities are at a disadvantage vis-à-vis domestic firms as they incur costs that are not experienced by local firms; some of these costs can be easily identified and quantified but some of them cannot (Calhoun 2002). Most of these costs are a consequence of a weak understanding of international business (Luo and Peng 1999) and include foreign exchange risks, unfamiliarity with local business practices (Casson 1979), the spatial distance between subsidiaries and parent firms, among others (Kindleberger 1969, Buckley and Casson 1976, Sethi and Guisinger 2002). Eden and Miller (2004) added that they are mainly barriers related to the social costs associated with unfamiliarity with local business practices, weak relational capabilities, and discriminatory risks faced by foreign firms.

Most of these studies were developed in Western markets that are relatively homogeneous in institutional, regulatory, and cultural terms; but this is not necessarily the environment found in many emerging countries (Wright et al. 2005) and therefore, specific studies are needed to better understand the factors conditioning business development in these economies. In general, emerging countries present a relatively weak institutional environment (Hoskisson et al. 2000). These weaknesses are usually tangible in two main areas: (i) lack of relevant information: comprehensive, reliable, and objective information to make business decisions is not always widely available; and (ii) misguided regulations: political goals are sometimes prioritised over economic efficiency reducing thus the chances to take full advantage of business opportunities. These institutional voids[1], usually taken for granted in developed economies where they play a role in providing a stable level playing field, are elements frequently missing in most EMs' environment (Meyer 2004).

In practice, this means that compared to SMEs based in developed countries, emerging markets SMEs face higher barriers in their international expansion, mostly due to this weakness in the

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[1] Defined as "the absence of specialist intermediaries, regulatory systems, and contract-enforcing mechanisms" in an economy (Khanna and Palepu 2006, p. 62).

institutional settings and the inefficiency of domestic markets. Poor information systems, limited access to venture capital, and scarce qualified human resources are also important constraints for their business expansion; also EMs' SMEs usually neither benefit from cluster advantages nor receive public support to develop their businesses (Lingelbach, De La Vina, and Asel 2005, Cardoza et al. 2016). Kazlauskaitė et al. (2015) added that the international expansion of SMEs from emerging economies is burdened by a lack of international ties and argued that this expansion is more likely to be driven by the motivation to gain new knowledge that is unavailable domestically.

In China, mainly as a result of the open door policy in 1978 and in particular of WTO accession in 2001, Chinese SMEs are now responsible for more than half of the country's exports and therefore have become major players in world trade (The Economist 2009, Deutsche Bank 2017). Exporting has been the first stage in their international expansion (Dunning 2003) as it has also been the most accessible, especially for small companies (it requires less fixed costs in comparison with other entry modes, etc (Zheng and Qu 2015)). Exporting has helped them to establish the necessary linkages abroad (Mathews 2006), to understand the market and develop capabilities to compete overseas (Gao 2008), and to build business relations with the aim of reducing the uncertainty and the asymmetry of information (Zheng and Qu 2015). Exporting has also supported learning along with economies of scale and scope which help in moving along the learning curve (Zheng and Qu 2015).

3 Hypothesis Development

The potential impacts of lacking complementary resources to leverage international expansion have been categorised into different types of liabilities: of foreignness, of newness, of expansion, and of outsidership (Cuervo-Cazurra, Maloney, and Manrakhan 2007, Johanson and Vahlne 2009). The liability of foreignness comprises mainly limited access to resources and capabilities in the host market along with lack of knowledge and information needed to operate

in a new market and within a new institutional environment (Zaheer 1995). Also, it usually refers to the lack of reliable contacts and access to local business networks, knowledge about the differences with host countries' culture and accurate information about local business practices and host markets' characteristics which are a consequence mainly of "not being sufficiently embedded in the information networks in the country of location" (Zaheer and Mosakowski 1997, p. 445).

More specifically, when entering new markets, SMEs face restrictions in access to quality information on markets and competitors (Sampler 1998) along with a lack of knowledge on relevant socio-cultural differences (Shenkar 2001, Leung et al. 2005, Hofstede 2007, Johanson and Vahlne 2009, Sun et al. 2012). These restrictions/barriers increase the liability of foreignness and make it more difficult for firms to identify business opportunities and design suitable business strategies in foreign markets. Thus, entrepreneurial alertness depends on access to relevant information (Alvarez and Barney 2015) but also on the ability of managers to recognise opportunities and evaluate the best strategic options considering cultural factors (Liu and Tian 2008, Buckley et al. 2007). For example, "cultural proximity, such as the Chinese overseas diaspora, has been a pulling factor of outward FDI by firms from China" (Xie, Reddy, and Liang 2017, p. 152).Based on these insights, a key question in the context of this research is to understand better the perception of business leaders on the impact of poor information on business opportunities as well as the psychic distance associated with the lack of knowledge on social-cultural differences in the international expansion of Chinese SMEs. In this sense, it is possible to argue that due to limited knowledge of markets and the perception of high cultural distance, the international expansion of Chinese SMEs may be negatively affected. As a consequence, this article conducts empirical research to verify, amongst other considerations, the following hypotheses related to liability of foreignness:

H1: Chinese SMEs with limited access to knowledge and information resources are less likely to expand their activities internationally.

H2: Chinese SMEs perceiving high socio-cultural differences between home and host markets are less likely to expand their activities internationally.

On the other hand, the lack of market knowledge – which includes, among other considerations (Morck and Yeung 1991), government policies, regulations, differentiated/discriminatory treatment in the host country (from government, buyers, suppliers, economic nationalism, etc), exchange rate risks, spatial distance and entry restrictions such as tariff and non-tariff barriers in the host country (Zaheer 1995, Cuervo-Cazurra, Maloney, and Manrakhan 2007, Hymer 1960) – increases the costs of companies doing business in markets overseas (Kostova and Zaheer 1999, Calhoun 2002). To overcome these liabilities of newness and of outsidership related to the weak relationships with local economic actors (Eriksson et al. 1997, Johanson and Vahlne 2009), firms can minimise the political and operational risks (Oxley 1991) by protecting contracts, managing and controlling relationships with stakeholders, adding parental control through integration and/or parental service through services or support, and standardising output to reduce foreign subunits' dependence on host country resources (Luo, Shenkar, and Nyaw 2002, Lu and Beamish 2004).

In any case, the lack of information on host markets along with high trade barriers and a degree of political instability increase the risk for foreign firms and therefore may have a negative impact on their expansion decisions and performance (Anderson and Gatignon 1986). Therefore, it can be argued that the information asymmetry resulting from the unfamiliarity with the host markets and the perception of adverse formal and informal regulations in host countries may deter firms from expanding abroad (Yang et al. 2009). To validate this idea empirically, the following hypothesis is formulated:

H3: Chinese SMEs, perceiving unfamiliarity with host countries' institutional setting and local business practices, are less likely to expand their activities internationally.

The liability of expansion comprises mainly the limited access to resources and capabilities needed to operate efficiently on a larger scale; this includes transferring resources and/or capabilities to related firms abroad, using the learning gained from previous experiences, or making acquisitions and/or joint ventures when first entering a new foreign market (Zaheer 1995, Cuervo-Cazurra, Maloney, and Manrakhan 2007, Barkema, Bell, and Pennings 1996). There seems to be an element of previous international experience in the strategies proposed to deal with this liability. In fact, Lu and Beamish (2004) observed that the total costs related to it are first reduced and then levelled when firms learn from their experiences in various countries.

In the context of this research, a key issue related to liability of expansion is the (negative) impact derived from Chinese SMEs' limited knowledge in managing operations abroad. This is particularly relevant as the great majority of these companies are in the early stages of international expansion; most Chinese SMEs only started their export activities a few years ago and therefore the possibilities to build and accumulate international experience have been limited. In addition, the difficulty in getting access to relevant local networks and reliable contacts (Zaheer and Mosakowski 1997, Zaheer 2002) and the complexity of setting up operations abroad increase the risk perception of emerging markets-based SMEs that may affect their strategic decision of expanding abroad. In this sense, it can be argued that the lack of business contacts and reliable representatives as well as the difficulties in exercising control over international operations may deter firms from expanding abroad. Building on these insights, this article conducts empirical research to verify the following hypothesis:

H4: Chinese SMEs with limited access to local business networks, reliable business representatives, and/or poor control systems are less likely to expand their activities internationally.

Summing up, the proposed framework, presented in Figure 1, illustrates the relationships between poor complementary resources and/or capabilities and Chinese SMEs' international expansion. The first group of hypotheses analyses the difficulties for Chinese SMEs in accessing new markets; this group is then divided into two main areas: limited knowledge of external markets and high socio-cultural distance. This group of hypotheses suggests that due to a perception of high cultural distance and limited knowledge of markets, the international expansion of Chinese SMEs may be negatively affected. The third hypothesis argues that the information asymmetry resulting from the unfamiliarity of how host markets operate may deter firms from expanding abroad. Finally, the fourth hypothesis argues that the difficulty in getting reliable local business contacts and setting up effective control of operations abroad increases the risk perception of SMEs and therefore affects their international expansion performance. These relationships are then conceptualised and formulated for empirical testing.

[Insert Figure 1 around here]

4 Research Methods

The sample was developed through a two-stage process. The first stage involved the selection of a Theoretical Sampling (Eisenhardt 1989, Eisenhardt and Graebner 2007, Pettigrew 1990) designed to capture the different patterns of development inside China. On the one hand, Jiangsu and Shandong, two of China's four largest provincial economies were chosen to represent the more developed regions that account for more than 50 percent of national GDP, around 60 percent of bank assets/loans, 70 percent of mortgages, 85 percent of imports and 85 percent of exports. These more developed regions are home to more than 65 percent of the nation's securities companies, 80 percent of insurers, and 95 percent of investment funds. On the other hand, Anhui and Ningxia were included in the sample to represent the less developed regions, mainly the Central and Western regions. The Central region has attracted little attention for high economic growth but has benefited from being in the middle of the rich East and the

resource-rich West. In recent years, it has emerged as a manufacturing hub for low-end manufactures due to the rising costs in the East, convenient location, good transport links, and an abundance of cheap labour. The Western region is China's poorest in GDP terms (the average province's GDP is about a quarter of that in the Eastern region) with income dependent on fiscal transfers from Beijing. It has been the fastest growing since 2005 and is rich in natural resources (66 percent of coal, 60 percent of natural gas and 40 percent of crude oil reserves) with a good potential for wind and solar energy (Zhiming 2010, Deutsche Bank 2017).

The second stage involved a survey applied to a nonprobability convenience sample of 582 owners, senior managers, and directors of SMEs in these four provinces (Anhui (170), Jiangsu (137), Shandong (115), and Ningxia Hui Autonomous Region (160)). The survey aimed at gathering information about the companies along with data on managers' perception using five-point Likert-type scales and other ordinal variables (data from only 497 questionnaires were used as the replies from the other 85 were not complete). The definitions for the variables can be seen in Table 1; the scale variables were based on Leonidou (2004). Participants operate within similar idiosyncratic characteristics (managerial, organisational, and environmental) making the responses operative (Barret and Wilkinson 1985) and, as a consequence, a similar contextual view of the challenges faced by their firms was obtained.

[Insert Table 1 around here]

Table 2 presents selected answers from the survey. In this table, it is possible to see that the companies in the sample operate mainly in manufacturing (34 percent), wholesale (12 percent), and retail (7 percent). Most were founded between four and ten years ago, and the great majority of their managers are men (77 percent) between 35 and 54 years old. These companies show a relatively high active participation by members of the managers' families. Most of these SMEs have funded their operations using loans/overdrafts, mainly from state-owned banks in the last

two years. The definition taken for SMEs is that given by the National Bureau of Statistics of China (2017) and can be seen in Table 3.

[Insert Tables 2 and 3 around here]

The data analysis was also developed in two stages. Similar to previous studies on managers' perceptions (see, for example, Park and Luo (2001) and Elango and Pattnaik (2007)), the first stage was based on multivariate regression analyses using the ratio of sales outside the companies' region of origin divided by total sales as a dependent variable and the survey's answers as independent variables. Following Leonidou's (2004, p. 281) definition of expansion ("the firms' ability to initiate, to develop, or to sustain business operations" outside their home markets), the foreign sales/total sales ratio was used as a proxy for engagement in international economic activities in the models. The foreign sales/total sales ratio is an established measure of expansion performance (Calof 1994, Bonaccorsi 1992) and its use is consistent with previous studies (see, for example, (Geringer, Tallman, and Olsen 2000, Capar and Kotabe 2003, Cardoza and Fornes 2011)).

The second stage was based on a stepwise multiple regression to obtain the highest statistically significant correlation with the independent variable. As the relative importance of these variables was not known beforehand, this second stage analysis was included to complement the results of the multivariate regression to see which of the variables has the highest impact on the Chinese SMEs in the sample as well as to rank them according to the managers' perceptions. The dependent and independent variables were the same as in the multivariate regression. The models can be seen below.

Limited knowledge of external markets (H1)

$IntSales_i = \alpha + \theta_1 LD/MD + \theta_2 Exp/GDP\_Industry_i + \theta_3 InfoSources_i + \theta_4 Data_i + \theta_5 Preferences_i + \theta_6 Price_i + \varepsilon_i$ (Equation 1)

where *IntSales$_i$* is the foreign sales/total sales of company *I,* LD/MD is a dummy variable to indicate where the company operates (in a less developed – the reference group – or more developed region), Exp/GDP_Industry is an interaction variable between the level of economic development in the region and the industry (considering Exports/GDP of the province of origin as a proxy for the level of economic development, the figures are for Ningxia 4.8 percent, Anhui 7.1 percent, Jiangsu 40.3 percent, Shandong 17.5 percent (Deutsche Bank 2017) which at the same time indirectly incorporates in the analysis the positive/negative impact of the policies of the government), and InfoSources, Data, Preferences, and Price are the variables defined in Table 1.

Socio-cultural differences (H2)

$IntSales_i = \alpha + \theta_1 LD/MD + \theta_2 Exp/GDP\_Industry_i + \theta_3 Socio\text{-}cultural_i + \theta_4 Verbal_i + \theta_5 Communication_i + \theta_6 Familiarity_i + \varepsilon_i$ (Equation 2)

where *IntSales$_i$* is the foreign sales/total sales of company *i*, LD/MD is a dummy variable to indicate where the company operates (in a less developed – the reference group – or more developed region), Exp/GDP_Industry is an interaction variable between the level of economic development in the region and the industry (see details in *H1*), and Socio-Cultural, Verbal, Communication, and Familiarity are the variables defined in Table 1.

Unfamiliarity with foreign contexts and business practices (H3)

$IntSales_i = \alpha + \theta_1 LD/MD + \theta_2 Exp/GDP\_Industry_i + \theta_3 HostRegulations_i + \theta_4 PolInstability_i + \theta_5 Tariff\&NTB_i + \theta_6 ExchRate_i + \varepsilon_i$ (Equation 3)

Where *IntSales$_i$* is the foreign sales/total sales of company *i*, LD/MD is a dummy variable to indicate where the company operates (in a less developed – the reference group – or more developed region), Exp/GDP_Industry is an interaction variable between the level of economic development in the region and the industry (see details in *H1*), and HostRegulations, PolInstability, Tariff&NTB, and ExchRate are the variables defined in Table 1.

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Limited contacts, reliable representatives, and control systems (H4)

$IntSales_i = \alpha + \theta_1LD/MD + \theta_2Exp/GDP\_Industry_i + \theta_3Contacts_i + \theta_4Representatives_i + \theta_5Control_i + \theta_6Distribution_i + \varepsilon_i$ (Equation 4)

Where *IntSales$_i$* is the foreign sales/total sales of company *i*, LD/MD is a dummy variable to indicate where the company operates (in a less developed – the reference group – or more developed region), Exp/GDP_Industry is an interaction variable between the level of economic development in the region and the industry (see details in *H1*), and Contacts, Representatives, Control, and Distribution are the variables defined in Table 1.

Stepwise regression (second stage)

$WS_i = \alpha + \theta_1InfoSources_i + \theta_2Data_i + \theta_3Preferences_i + \theta_4Price_i + \theta_5Socio\text{-}cultural_i + \theta_6Verbal_i + \theta_7Communication_i + \theta_8Familiarity_i + \theta_9HostRegulations_i + \theta_{10}PolInstability_i + \theta_{11}Tariff\&NTB_i + \theta_{12}ExchRate_i + \theta_{13}Contacts_i + \theta_{14}Representatives_i + \theta_{15}Control_i + \theta_{16}Distribution_i + \varepsilon_i$ (Equation 5)

where *WS$_i$* is the export intensity of company *i* for the whole sample and θ_n are the variables defined in Table 1.

Robustness checks

The first check was for differences in the two sub-samples (LD and MD). An Independent Samples t-test was carried out to see if the difference between the two means was statistically significantly different from zero at the 5 percent level of significance. The second check was for specification, the omission or inclusion of irrelevant variables and the selection of an incorrect functional form. This process was carried out to test the robustness of the model, to avoid losses in the accuracy of the relevant coefficients' estimates, and to avoid a biased coefficient by estimating a linear function when the relationship between variables was nonlinear. Thirdly, different measures were put in place to avoid measurement errors, such as

back translations and pilot testing of the questionnaire, and data collected in similar contexts (as explained above). Fourthly, t-statistics were adjusted by a heteroskedasticity correction in the regressions to test whether error terms depended on factors included in the analysis. Fifthly, 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). Finally, interclass correlation was tested using the clustered robust regression method to check for the lack of normality in the data collected from the four provinces.

5 Results

Table 4 presents the results of the independent samples t-test. As can be seen, there is no statistical difference between the two subsamples LD and MD ($p>0.01$ two-tailed) which suggests that the two belong to the same population and therefore can be compared in the context of this study. Table 5 presents the Kendall's τ coefficient for scale variables (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 Durbin-Watson coefficients of the different models do not show autocorrelation and the VIFs do not present signs of multicollinearity. The original variables were kept in the model as it was considered that even factoring in the closeness of the concepts, the variables do not depart from their independence mainly owing to the different contexts and purposes of the original data. The F-test also shows the robustness of the models at a 0.05% confidence level[2]. The robust regression analysis yielded similar coefficients, standard errors, and t and p values to that of the OLS regression, therefore no correction for intraclass correlation was deemed necessary.

[Insert Tables 4 and 5 around here]

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[2] Limited knowledge of external markets: F=4.915; Socio-cultural differences: F=4.731; Unfamiliarity with foreign contexts and business practices: F=3.397; Limited contacts, reliable representatives, and control systems: F=8.618.

The results of running the six models (Equations 1, 2, 3, 4, and 5) can be found in Table 6. The analysis of the table follows.

Limited knowledge of markets (H1) model: the first box presents the results of running Equation 1. It can be seen that Exp/GDP_Industry, Data, and Price are statistically significant ($|\beta_m/S_b|>t_{n-8; 0.95}$). This partially accepts H1. Also, the interaction between the level of regional development and the industry has an effect on the firms' international expansion.

Socio-cultural differences (H2) model: the second box presents the results of running Equation 2. It can be seen that Exp/GDP_Industry and Familiarity are statistically significant ($|\beta_m/S_b|>t_{n-8; 0.95}$). This partially accepts H2 as the lack of familiarity with the host market hinders international expansion. Also, the interaction between the level of regional development and the industry has an effect on the firms' international expansion.

Unfamiliarity with foreign contexts and business practices (H3) model: the third box presents the results of running Equation 3. It can be seen that Exp/GDP_Industry and ExchRate are significant ($|\beta_m/S_b|>t_{n-8; 0.90}$). This partially accepts H3 as the management of the exchange rate is a key element in the international expansion. Also, the interaction between the level of development and the industry has an effect on the firms' international expansion.

Limited contacts, reliable representatives, and control systems (H4) model: the fourth box presents the results of running Equation 4. It can be seen that Exp/GDP_Industry, Contacts, Control, and Distribution are significant ($|\beta_m/S_b|>t_{n-8; 0.90}$). This partially accepts H4. Also, the interaction between the level of regional development and the industry has an effect on the firms' international expansion.

Stepwise regression (second stage) model: the fifth row presents the results of running Equation 5. It shows the ranking of variables based on the perceptions of SMEs managers on complementary resources and/or capabilities (Distribution, ExchRate, Familiarity, Tariff&NTB, Contacts, Data, Socio-cultural, and Price).

[Insert Table 6 around here]

5.1 Discussion

In Table 6, it is possible to see that seven barriers were relevant out of the total of 16 tested (43.75% assuming an equal weighting). A possible explanation, which should be tested in future research, considers that the adoption of an open market economy in China is a very recent phenomenon; therefore, SMEs are just in the process of gaining experience and knowledge in overseas markets to identify and overcome barriers to their expansion. Also, it may be possible that along the learning curve the perception of barriers increases as well as the resources and capabilities to overcome them. This finding was not expected as for the reasons discussed above on the environment for business in EMs, it could be presumed that small businesses from emerging economies would face more barriers than companies operating in advanced economies. An analysis of the results for the four hypotheses follows.

As expected and found in previous studies for developed countries (Zaheer and Mosakowski 1997, Sampler 1998, Calhoun 2002), limited access to market data and information about host markets and competitors increases the liability of foreignness and as a consequence the perception of Chinese SMEs in the sample of barriers for their international expansion strategies. This results in firms less likely to expand their operations beyond the home country border (see *H1*). In addition to restricted access to market data and information, the perception of low familiarity with the host market increases the risk perception of Chinese SMEs reducing, thus, the likelihood of these companies deploying a strategy to expand internationally (see *H2*). This finding confirms similar observations of studies on internationalisation in developed economies (Hofstede 2007, Leung et al. 2005, Shenkar 2001, Johanson and Vahlne 2009).

As this is also the case for companies operating in developed economies, the results of the analysis confirm that unfamiliarity with formal and informal regulations in host countries increases the liabilities of newness and of outsidership of Chinese SMEs. As a consequence,

the higher perception of these barriers has a negative impact on the expansion decisions and performance of these companies (see *H3*). Perceived inexperience in dealing with local regulations, and specificities of financial markets (such as exchange rates, etc.) condition the international expansion strategies of SMEs from emerging economies.

As anticipated, the empirical analysis has also confirmed that low international experience increases the liabilities of newness and expansion of Chinese SMEs (see *H4*). Limited knowledge in managing international operations, restricted access to relevant local networks and reliable contacts and representatives, and lack of efficient control over international operations and sound management distribution systems increase the risk perception of emerging markets-based SMEs and therefore, negatively impact their strategic decisions of expanding abroad.

The development of an open market economy in China is still, in many aspects, in its early stages and it takes time to develop relationships and a culture of sharing. On the other hand, this brings about the need to promote inter-firm relationships to share knowledge and to leverage domestic resources and/or capabilities in favour of SMEs' international expansion strategies. Also, as other studies have stated, promoting personal and business relations will help to compensate for institutional voids and liabilities of foreignness (Deng 2011, Khanna and Palepu 2006, Mathews 2002, Yiu, Lau, and Bruton 2007, Zhou, Wu, and Luo 2007). Finally, it is important to note the relevance of the industry in which the company operates and its interaction with the local level of economic development in all the analyses (which indirectly incorporates government policies), this could be explained by the well-known promotion and encouragement of certain industries and regions by the Chinese government[3].

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3 The relation between the industry and the international expansion was not the focus of this work; the former was studied, for example, by Fornes, Cardoza, and Xu (2012).

The analysis of the variables that were not relevant also provides insights. In this sense, the fact that some variables in *H2* (Socio-cultural, Verbal, and Communication) along with Representatives in *H4* were not relevant may suggest that Chinese SMEs have been successful in establishing useful links with partners and consumers in international markets, reducing both the liabilities of foreignness and expansion. The same could be said about the liability of newness, related to institutional distance, as Chinese SMEs may have developed the knowledge and skills to deal with different regulations, political instability, and tariff and non-tariff barriers (*H3*) in host countries. This may indicate that companies follow a process in which the first step is engaging in conversations/links with customers/partners abroad and the second step is overcoming barriers in the host country. The next stage may be improving the control of the operation abroad (which appeared statistically significant in *H4*) and as such it may be the stage in which the firms are currently. This process may be improved by the support provided by the Chinese government (see, for example, (Buckley et al. 2007, Ge and Ding 2008, Li et al. 2008, Rui and Yip 2008, Warner 2014) on the support offered to China's companies for their international expansion) which could have helped these SMEs to minimise the impact of the barriers and liabilities through preferential access to funding, markets, information, and specialised resources. Further research is needed in this area.

5.2 Implications

The findings in this study have implications for theory, practice, and policy-making. First, the results highlight that Chinese SMEs are impacted differently to their counterparts in Western countries by specific liabilities/barriers in their international expansion mainly due to the lack of key complementary resources/capabilities (Leonidou 2004, Tiwari, Sen, and Shaik 2016). Second, the results contribute to the debate on the capabilities of Chinese firms to expand internationally; the findings have shown that companies in the sample have developed specific strengths that have helped them to minimise their liabilities and as a consequence improve their

international performance (these strengths can be related to the support from the government as shown in previous studies). These findings seem to be consistent with Mathews' (2006) LLL model of internationalisation of Asian companies, in particular how the leverage of organisational learning appears to help to overcome the low development of internal capabilities and the lack of complementary resources in the international expansion of Chinese SMEs.

Also, implications for practice can be found in two main areas: first, in the areas in need of training and managerial development, like management of foreign exchange risks or cross-cultural negotiation; second, designing programmes and systems to facilitate access to host country business networks, improve supervision and control systems and improve distribution channels in host markets. This finding lends support to Yamakawa, Pend, and Deeds' (2008) hypothesis that new ventures from emerging economies seek benefits of incoming knowledge flows in their international expansion.

The findings also have implications for policy making. The results show the need to establish specialised infrastructures offering value-added information and networking services to act as an active interface between the international market and the local SMEs. In addition, companies, unions, and public and private institutions need to develop management training programmes in international business, risk management, payment methods, cross-cultural negotiation etc. These programmes should aim at filling the skills gap in the professional profile of entrepreneurs and managers of SMEs from emerging countries. Similar conclusions have been reached in similar studies in Latin America (see, for example, (ECLAC 2013) and (Cardoza et al. 2016)).

The research results discussed above show that external factors, both at the domestic level and in host markets, ranging from local regulations and distribution facilities to cultural differences and exchange rates, are perceived as critical for the performance of business expansion. The

results also suggest that the RBV approach is insufficient for analysing the barriers associated with liabilities of foreignness, newness, and outsidership. The fact that most of the perceived barriers are external shows that the RBV inside-out approach does not capture the dynamic effects of environmental factors such as institutions, availability of tangible and intangible assets, and network effects. As stated by Yamakawa, Peng, and Deeds (2008), RBV focuses its analysis on firm-specific resources and capabilities and therefore it is important to include external environmental factors in the analysis of international expansion.

5.3 Future research directions

Further research about the connection between internal and external resources and capabilities is needed to manage international expansion more effectively. Only after a deep analysis and across-the-board understanding of firm-specific and environmental factors will firms be able to identify what resources and capabilities are needed to design and implement suitable expansion strategies. Answering the questions about the resources and capabilities needed to overcome barriers associated with different types of liabilities requires that RBV analysis should be combined with frameworks such as the industry-based view and the institution-based view (Peng, Wang, and Jiang 2008). For instance, a multiple approach will allow for a more comprehensive understanding of the role that organisational learning ability and the relationships of the firm may play in the process of international expansion processes.

More broadly, the influence of the institutional environment on SMEs' international expansion is also an area in need of further research. This is because SMEs in China operate within an institutional framework in constant change, where many economic activities are still under the control of the state, and therefore firms' strategic options are conditioned by the government policies and regulatory frameworks (Buckley et al. 2007, Wright et al. 2005, Zhu, Wittmann, and Peng 2011, Cardoza et al. 2015). These areas have received little attention from researchers

and they remain relatively underexplored topics, particularly in emerging and transition economies.

5.4 Limitations

The main limitation of this study is its generalisation. Although based on around 500 companies from, firstly, a theoretical sample and, secondly, a nonprobability convenience sample, it is recognised that they represent only a small population of Chinese SMEs and that other regions (mainly Guangdong province) may be analysed to have a better picture of the phenomenon under analysis. In any case, this is one of the first research studies to analyse such a large sample in four different Chinese regions.

6 Summary and Conclusions

How do small and medium-size enterprises (SMEs) based in emerging markets (EM) leverage and manage their international expansion? Do their relatively weak capabilities, the scarcity of resources, and the limited international experience condition their business plans and impact their expansion strategies to grow abroad? This article, by analysing the impact of complementary resources/capabilities/liabilities on Chinese SMEs' international expansion, intends to answer these questions using data from around 500 Chinese SMEs operating in four different provinces. The main findings can be summarised as follows: (i) limited knowledge of external markets (poor availability of data on external markets, poor understanding of international customers' preferences, and pricing) is an important source of liability for Chinese SMEs in their expansion process; (ii) socio-cultural, verbal, and communication differences apparently do not affect international expansion; however, unfamiliarity with host country business practices is perceived as an important barrier; (iii) Chinese SMEs seem to have developed specific skills to overcome barriers in host countries; (iv) finding suitable distribution channels to serve international markets is one of the main challenges faced by

Chinese SMEs; and (v) to improve business expansion, Chinese SMEs need to identify reliable local contacts and improve the control of the overseas operation.

All in all, this study is relevant for both theory development and practice. On the one hand, it provides deep insights on the barriers faced by SMEs from emerging economies when doing business abroad and especially to discriminate among its different sources of liabilities. On the other hand, the study can help managers to design strategies suited to overcome different types of liabilities/barriers. The study also draws important lessons from the Chinese experience that can offer useful insights for policy makers in transition and emerging economies interested in accelerating the expansion process of their SMEs.

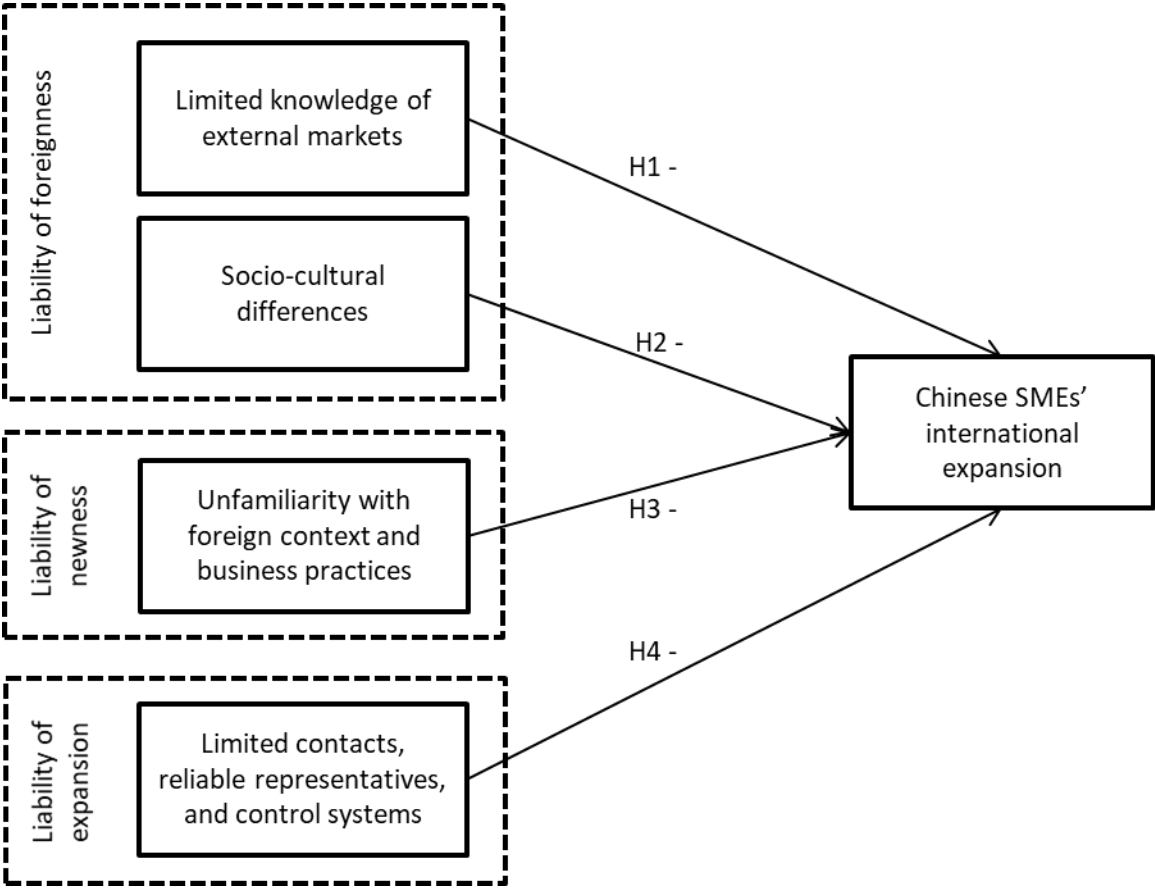**FIGURE 1. COMPLEMENTARY RESOURCES AND THE INTERNATIONAL**

EXPANSION OF CHINESE SMEs

TABLE 1. DEFINITION OF VARIABLES

Scale Variables. 5-Point Likert-Type Scale*			
InfoSources	The company does not have access to the relevant information sources to identify external markets for the company's products and services	Preferences	The different preferences, patterns, prices, and communication with customers in international markets make operating abroad more difficult
Data	The company does not have the relevant data to assess the possibilities that the international markets are offering	Communication	Communication difficulties affect the normal development of business abroad
Contacts	The company has difficulties to identify and contact potential customers in markets overseas	PolInstability	The political instability in external markets is seen as a barrier to operate internationally
Price	The retail price of the company's products is not adequate for the final consumers in international markets	HostRegulations	The different regulations in external markets make access and operations more difficult
Representatives	It is difficult to find reliable representatives abroad	Tariff & NTB	The tariff and non-tariff barriers in overseas markets restrict international activities
ExchRate	Exchange rate variations represent an important risk to the company's operations abroad	Distribution	The company finds the distribution channels complex to serve international markets
Control	It is difficult to exercise effective control over the middlemen in international markets	Familiarity	The lack of familiarity with commercial practices abroad affect the company's operations
Verbal	The differences in verbal and non-verbal language affect the activities carried out in external markets	Socio-cultural	The socio-cultural differences (religion, values, customs, attitudes, etc.) are considered obstacles to international activities
Dummy Variable		**Interaction Variable**	
LD/MD	Shows where the company operates, LD = 0 (the reference group) and MD =1.	Exp/GDP_Industry	Shows the interaction between the region's level of development and the industry in the regression. It was calculated using the centred value of the interacting variables.

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

TABLE 2. SELECTED ANSWERS FROM THE SURVEY (N=582 although only 497 questionnaires were used as the replies from the other 85 were not complete)

Age of respondent		Gender of respondent		Studies of respondent		State-owned	Active participation of family members			Funding sources in the last two years			Years since start-up		
35-44	45-54	M	F	UG	PG		Sons	Husband / wife	Father/ mother	Loans from banks	Own savings	Previous years' profits	0-5	6-10	>10
38%	29%	77%	23%	59%	13%	21%	14%	32%	15%	33%	14%	16%	37%	22%	41%

Profits during last year					Main activity*												
Decreased	Slightly decreased	Kept at same level	Slightly increased	Increased	Manufacture	Hotel / Restaurant	Retail	Wholesale	Prof. Services	IT	Construction	Transport	Real Estate	Finance / Insurance	Health / Education	Others
10%	12%	17%	31%	28%	34%	5%	7%	12%	8%	4%	6%	5%	5%	4%	4%	18%

*: Total may not equal 100% as some SMEs reported more than one activity, such as retail and wholesale, for example.

TABLE 3. DEFINITION OF SMALL AND MEDIUM-SIZE ENTERPRISES (National Bureau of Statistics of China 2017)

	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	

* Sales and Total Assets, thousands of RMBs

TABLE 4. RESULTS OF THE INDEPENDENT SAMPLES t-TEST

	Mean	Std. Deviation		Levene's Test		t	Sig. (2-tailed)
				F	Sig.		
CW	0.16	0.32					
ER	0.17	0.29	Equal variances assumed	1.30	0.25	-0.12	0.91

TABLE 5. CORRELATION MATRIX FOR SCALE VARIABLES – KENDALL'S τ COEFFICIENT

	InfoSources	Data	Contacts	Price	Representatives	ExchRate	Control	Verbal	Preferences	Communication	PolInstability	HostRegulations	Tariff&NTB	Distribution	Familiarity	Socio-cultural	VIF
InfoSources	1.000																1.09
Data	.227**	1.000															1.11
Contacts	.127**	.053	1.000														1.09
Price	.109**	.174**	.030	1.000													1.08
Representatives	.024	-.109**	.242**	.027	1.000												1.89
ExchRate	.204**	.116**	.089*	.166**	.176**	1.000											1.43
Control	.030	-.073	.195**	.073	.545**	.219**	1.000										1.68
Verbal	.061	.024	.067	.072	.181**	.180**	.179**	1.000									1.54
Preferences	.118**	-.045	.167**	.130**	.273**	.218**	.258**	.232**	1.000								1.05
Communication	.036	-.015	.116**	.074	.231**	.199**	.229**	.347**	.283**	1.000							1.37
PolInstability	.161**	.097*	.105**	.182**	.131**	.350**	.179**	.298**	.259**	.184**	1.000						1.43
HostRegulations	.152**	.043	.091*	.131**	.254**	.412**	.281**	.281**	.313**	.264**	.459**	1.000					1.91
Tariff&NTB	.136**	-.007	.091*	.080*	.197**	.348**	.259**	.267**	.358**	.190**	.316**	.529**	1.000				1.56
Distribution	-.037	-.146**	.203**	-.042	.387**	.046	.289**	.211**	.284**	.188**	.097*	.131**	.152**	1.000			1.31
Familiarity	.126**	-.004	.136**	.051	.266**	.175**	.218**	.352**	.279**	.300**	.307**	.338**	.254**	.260**	1.000		1.33
Socio-cultural	.108**	.114**	.101**	.091*	.253**	.251**	.198**	.475**	.287**	.357**	.348**	.320**	.309**	.193**	.385**	1.000	1.55

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

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

TABLE 6. RESULTS FROM REGRESSIONS

	β	t	
H1 [a]	0.33	*5.33*	
LD/MD	-0.01	*-0.27*	
Exp/GDP_Industry	0.05	*2.25*	*
InfoSources	-0.02	*-1.14*	
Data	-0.04	*-2.46*	*
Preferences	0.02	*1.51*	
Price	-0.04	*-2.74*	*
R^2	0.06		
Durbin Watson	1.70		
H2 [a]	0.01	*0.21*	
LD/MD	-0.01	*-0.38*	
Exp/GDP_Industry	0.06	*2.64*	*
Socio-cultural	0.01	*0.60*	
Verbal	-0.01	*-0.73*	
Communication	0.00	*0.05*	
Familiarity	0.07	*3.83*	*
R^2	0.06		
Durbin Watson	1.69		
H3 [a]	0.27	*5.18*	
LD/MD	-0.02	*-0.80*	
Exp/GDP_Industry	0.06	*2.60*	*
HostRegulations	-0.01	*-0.39*	
PolInstability	0.03	*1.60*	
Tariff&NTB	-0.02	*-0.73*	
ExchRate	-0.05	*-2.70*	*
R^2	0.04		
Durbin Watson	1.70		
H4 [a]	-0.06	*-1.18*	
LD/MD	-0.00	*-0.09*	
Exp/GDP	0.05	*2.36*	*
Contacts	0.03	*2.09*	*
Representatives	0.02	*0.83*	
Control	-0.03	*-1.75*	**
Distribution	0.07	*5.08*	*
R^2	0.10		
Durbin Watson	1.77		

Stepwise	Order	R^2	F	p
Distribution	1	0.08	41.79	0.00
ExchRate	2	0.11	14.45	0.00
Familiarity	3	0.12	7.29	0.01
Tariff&NTB	4	0.13	6.66	0.01
Contacts	5	0.15	6.02	0.01
Data	6	0.16	6.99	0.01
Socio-cultural	7	0.17	4.47	0.04
Price	8	0.17	4.65	0.03

*: Significant at 0.05 level **: Significant at 0.10 level

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